Background Information on

EQUALIZATION

December, 1984

Manitoba
Finance

Table of Contents

		Page *
I.	**Manitoba's Position on Equalization** ..... Submission by the Premier of Manitoba to the Prime Minister of Canada; December 13, 1984	1
II.	**Telex to Rt. Hon. Brian Mulroney** ..... from Premier Pawley; November 27, 1984	7
III.	**Notes for a Meeting with Hon. Michael Wilson** ..... Hon. Vic Schroeder; November 26, 1984	9
IV.	**Background on Equalization** ..... prepared by Manitoba Finance; October, 1984	19
V.	**Effect of Federal Transfer Payment Cutbacks on Manitoba** .... prepared by Manitoba Finance, October, 1984	25
VI.	**Letter to Hon. Michael Wilson** ..... from Hon. Vic Schroeder; October 5, 1984	35
VII.	**Letter to Hon. Michael Wilson** ..... from Hon. Vic Schroeder; September 7, 1984	39
VIII.	**Telex to Rt. Hon. Brian Mulroney** ..... from Premier Pawley; September 5, 1984	41
IX.	**Letter to Hon. Lloyd Axworthy** ..... from Premier Pawley; July 23, 1984	43
X.	**Letter to Premier Pawley** ..... from Hon. Lloyd Axworthy; July 19, 1984	45
XI.	**Letter to Rt. Hon. John Turner** ..... from Premier Pawley; July 3, 1984	47
XII.	**Need for Extended Transitional Arrangements** ..... Notes for a Submission by Hon. Vic Schroeder to Hon. Marc Lalonde; December 8, 1983	51
XIII.	**Federal Transfers to Manitoba — Need for Review** ..... Notes for a Submission by Hon. Vic Schroeder to Hon. Marc Lalonde; February 4, 1983	59
XIV.	**Letter to Hon. Allan MacEachen** ..... from Hon. Vic Schroeder; April 15, 1982	65
XV.	**Submission to the Standing Committee on Finance, Trade and Economic Affairs** ..... by Hon. Vic Schroeder; April 1, 1982	71

* Page sequence for this book is indicated by large numbers at the bottom of each document.

XVI. **Commons Debate on Federal Transfers to Provinces** 77
Hansard Extracts; March 23 - April 1, 1982

XVII. **Statement on Federal Proposals on Funding for Health, Post-Secondary Education, and Equalization** 95
Tabled in the Manitoba Legislature; March 22, 1982

XVIII. **Summary of Financial Implications of Federal Cutbacks** 97
Tabled in the Manitoba Legislature; March 22, 1982

XIX. **Telex to Hon. Allan MacEachen** 105
from Hon. Vic Schroeder; March 19, 1982

XX. **Letter to Hon. Allan MacEachen** 107
from Hon. Vic Schroeder; March 3, 1982

XXI. **Telex to Hon. Vic Schroeder** 111
from Hon. Allan MacEachen; March 2, 1982

XXII. **Public Announcement** 113
by Hon. Vic Schroeder; February 26, 1982

XXIII. **Text of Telex to Hon. Allan MacEachen** 115
from Hon. Vic Schroeder; February 24, 1982,
as sent to Provincial Finance Ministers and
Treasurers

XXIV. **Public Announcement** 117
by Hon. Vic Schroeder; February 19, 1982

XXV. **Telex to Hon. Allan MacEachen** 119
from Hon. Vic Schroeder; February 18, 1982

XXVI. **Joint Provincial Statement on Fiscal Arrangements** 121
Federal-Provincial First Ministers' Conference
on the Economy; February 4, 1982

XXVII. **Public Announcement** 127
by Premier Pawley; February 5, 1982

XXVIII. **Public Announcement** 129
by Hon. Vic Schroeder; January 22, 1982

XXIX. **Telex to Hon. Allan MacEachen** 131
from Hon. Vic Schroeder; December 31, 1981

XXX. **Telex to Hon. Vic Schroeder** 133
from Hon. Allan MacEachen; December 30, 1981

XXXI. **Public Announcement** 135
by Hon. Vic Schroeder; December 18, 1981

Manitoba's Position on
EQUALIZATION

A Submission to the
Prime Minster of Canada
by
the Premier of Manitoba

December 13, 1984

THE PREMIER OF MANITOBA
WINNIPEG
R3C 0V8

December 13, 1984

The Right Honourable Brian Mulroney, PC, QC, MP
Prime Minister of Canada
House of Commons
Ottawa, Ontario
K1A 0A2

My dear Prime Minister:

I very much appreciate your arranging to meet with me today to discuss several matters of critical importance to the government and the people of Manitoba.

Our most urgent immediate concern, as you know, is the possibility of a $72 Million reduction in equalization payments to our province in the fiscal year starting April 1, 1985 -- about three and a half months from now.

In preparation for our meeting, I am sure you will have received a detailed briefing on the current situation and on the discussions which our respective Ministers of Finance and their officials have held in recent weeks. However, I thought you would find it helpful, as a supplement to that information and as a focus for our discussion today, to receive a summary of our position, as well as some background documentation covering the implications of the possible reduction for Manitoba.

Background - The cause of the current equalization problem

The current equalization problem facing Manitoba results directly from the new basic equalization formula introduced in the 1982/83 fiscal year -- a formula which our government regards as unfair to our province and inconsistent with the equalization provision in the Canadian Constitution.

Before 1982/83, equalization payments were calculated under a national-average formula which took all ten provinces' revenues and tax bases into account in determining individual provinces' eligibility for payments. Starting in 1982/83, however, the national-average formula was replaced by a so-called "representative average" formula which only takes the tax bases of five of the provinces into account.

Our government did not take office until late November, 1981, and thus did not participate in federal-provincial discussions of the equalization formula change until that time. However, it is our understanding that the principal argument advanced for moving from a ten-province equalization standard to a five-province standard was the concern of the former federal government that, under the previous formula, Ontario could have qualified for substantial equalization entitlements.

In any case, the decision to drop the national-average formula -- a decision which we and several other provinces opposed strongly -- had significant implications for the distribution of equalization payments among the recipient provinces. Estimates produced at the time, and since verified by actual experience, showed that Manitoba faced by far the largest reduction in equalization payments in relative terms as a result of the formula change.

In these circumstances, and in response to our concerns, the federal government agreed to introduce special transitional arrangements designed to prevent Manitoba and other provinces from experiencing payment reductions. Under these transitional arrangements, provinces which qualified were guaranteed a minimal annual growth in payments for three years, after which, the basic equalization formula was supposed to "cut in" smoothly and to provide increasing payments in subsequent years.

Unfortunately, the estimates upon which the three-year term of the transitional arrangements was based proved to be inaccurate. Equalization entitlements under the new basic formula have been substantially lower than predicted, transitional payments have been higher than anticipated, and now, as we approach the end of the three-year period, we face not a smooth shift onto the new formula as originally forecast, but instead, an absolute drop-off of $72 Million or 15% of our total equalization entitlement. If such a reduction were permitted to occur, when the province's need for equalization as measured under the new formula is increasing, it would be unprecedented in the history of the national equalization system in this country.

The following table, which compares the original federal estimates and the most recent federal estimates shows the magnitude of the problem for Manitoba -- both for 1985/86 and for 1986/87.

MANITOBA EQUALIZATION PAYMENTS
($ millions)

	MARCH, 1982 FEDERAL ESTIMATES			UPDATED FEDERAL ESTIMATES			
	Basic	Transitional	Total	Basic	Transitional	Floor	Total
1981/82	392		392	399			399
1982/83	349	82	431	276	163		439
1983/84	401	56	457	290	177		468
1984/85	443	27	470	338	142		480
1985/86	488		488	367		41	408
1986/87	538		538	400			400

A great deal of additional background information can be found in the material which follows.

Manitoba's Position

Manitoba recognizes that the root cause of the problem we now face lies in the design of the basic equalization formula introduced in 1982/83, and we welcome the new federal government's stated willingness to enter into early negotiations with all provinces to seek improvements to that formula for implementation in 1987/88 or sooner.

At the same time, we acknowledge that a major revision to the national formula cannot be negotiated in time for 1985/86. In these circumstances, we are simply seeking an extension of the transitional arrangements in line with their original intent.

In our view, such an extension is warranted on several grounds:

- It would help confirm the new Government of Canada's commitment to equalization as a key, special national priority, in line with the federal government's constitutional responsibility.

- It would serve to reinforce the new federal government's commitment to reducing regional disparities and to ensuring sensitivity to special regional and provincial circumstances in applying national policies.

- It would be consistent with the new Government of Canada's recognition of the need for transitional equalization arrangements in other circumstances -- specifically those described in the agreement in principle with the province of Newfoundland concerning off-shore energy resource development.

- It would prevent a severe revenue loss for Manitoba. Our province faces a very difficult financial situation at the present time. Forecasts indicate that if the $72 Million equalization reduction were to take place, our government's overall revenue growth would be less than 1% in 1985/86. Expressed another way, a $72 Million reduction in equalization payments would wipe out about three-quarters of Manitoba's entire revenue growth for next year.

- It would help rectify the unfairly harsh negative impact on Manitoba of the equalization formula introduced in 1982/83.

- It would reflect a recognition by the federal government that Manitoba has a requirement for continuing, stable equalization support, as demonstrated by the upward trend in basic equalization entitlements under the new formula.

- It would not affect any other province's equalization entitlement in a negative way, and thus would not necessitate general federal-provincial negotiation.

- It would show that the federal government recognizes there is no overall benefit to be gained for Canadian taxpayers if the burden of the federal deficit is shifted onto provincial governments and, more particularly, onto equalization recipient provinces.

As you will understand, the current uncertainty surrounding the equalization situation has made it extremely difficult for our government to formulate budgetary plans for the 1985/86 fiscal year. Key decisions concerning levels of program support, taxation, and so on, cannot be made until the equalization problem is resolved. As I noted earlier, about three-quarters of our province's potential revenue growth for next year is in question. Obviously, even with the $72 Million in equalization support which is involved, we would face very serious budgetary pressures, but without that support, those pressures will be severe and could well undermine our ability to maintain key services and to do our part, alongside the Government of Canada, in encouraging further economic recovery and development.

These concerns explain our desire for an early decision by the Government of Canada and, of course, our strong hope that the decision will be a positive one for our province.

In a telex which I sent to you on November 27 following the meeting in Winnipeg between our Ministers of Finance, I stressed that our government regards the resolution of the equalization problem as an important opportunity to demonstrate the new, cooperative approach to federal-provincial relations to which we are both committed.

As I indicated earlier, your initial response, in scheduling this meeting, is much appreciated, as were the assurances both you and the Honourable Michael Wilson have offered, both publicly and privately, that no final decision has yet been made on the Manitoba equalization situation.

I contine to hope we can resolve this situation by way of a mutually-satisfactory joint decision which is clearly fair to the citizens of our province.

Yours sincerely

Howard Pawley

Howard Pawley
Premier of Manitoba

c.c. Hon. Michael Wilson
Hon. Vic Schroeder

0533208
0533208
0533208
0533208‡
PHO PCO OTT

FIN FPR WPG

NOVEMBER 27, 1984

THE RIGHT HONOURABLE BRIAN MULRONEY, P.C., Q.C., M.P.
PRIME MINISTER OF CANADA
OTTAWA, ONTARIO

MY DEAR PRIME MINISTER:

FURTHER TO DISCUSSIONS EARLIER TODAY BETWEEN OUR OFFICIALS, I WANT TO ADVISE YOU FORMALLY THAT I BELIEVE IT IS IMPERATIVE WE MEET AT THE EARLIEST POSSIBLE OPPORTUNITY TO DISCUSS SEVERAL MATTERS OF MAJOR CONCERN TO BOTH OUR GOVERNMENTS AND TO THE PEOPLE OF MANITOBA.

I AM PROPOSING A MEETING, IN OTTAWA, ON FRIDAY, NOVEMBER 30TH, SINCE I AM IN EASTERN CANADA ON BUSINESS IN ANY EVENT. MY OFFICE IN WINNIPEG CAN RELAY ANY MESSAGES TO ME IN MONTREAL TODAY OR TORONTO TOMORROW.

AT OUR LUNCHEON WITH THE OTHER FIRST MINISTERS ON NOVEMBER 13TH, YOU NOTED THAT MANITOBA'S CONCERNS ABOUT A POSSIBLE DOLLARS 72 MILLION EQUALIZAITON CUTBACK AND ABOUT THE CUT ANNOUNCED FOR THE NRC'S INSTITUTE FOR MANUFACTURING TECHNOLOGY IN WINNIPEG WERE TO BE DISCUSSED IN THE NEAR FUTURE BY SOME OF YOUR COLLEAGUES -- SPECIFICALLY THE HON. M. WILSON, THE HON. J. EPP AND THE HON. T. SIDDON -- WITH THEIR MANITOBA COUNTERPARTS. THOSE DISCUSSIONS HAVE NOW BEEN HELD, AND I BELIEVE IT IS ESSENTIAL THAT WE, AS FIRST MINISTERS, REVIEW THE RESULTS AND DISCUSS WHERE WE GO FROM HERE.

I ALSO WANT TO DISCUSS WITH YOU SOME REGRETTABLE RELATED EVENTS WHICH HAVE OCCURRED IN THE PAST FEW DAYS AND, AT THE SAME TIME, TO OUTLINE FOR YOU THE PRELIMINARY RESULTS OF OUR ANALYSIS OF YOUR GOVERNMENT'S NOVEMBER 8 ANNOUNCEMENTS ON MANITOBA.

I WOULD LIKE TO THINK THAT WE CAN RESOLVE THESE CONCERNS IN THE POSITIVE SPIRIT OF COOPERATION TO WHICH WE HAVE COMMITTED BOTH OUR GOVERNMENTS. IN EFFECT, THEY REPRESENT A TANGIBLE TEST OF THE KIND OF NEW APPROACH TO FEDERAL-PROVINCIAL RELATIONS WE HAVE BOTH ENDORSED, AND AN OPPORTUNITY TO RESTORE SOME OF THE GOODWILL WHICH, UNFORTUNATELY, HAS BEEN UNDERCUT BY THE EVENTS OF THE PAST FEW WEEKS.

I WILL LOOK FORWARD TO HEARING FROM YOU AS SOON AS POSSIBLE.

HOWARD PAWLEY
PREMIER OF MANITOBA
WINNIPEG, MANITOBA
TELEX: 07-587589

VVVV

HONOURABLE VIC SCHROEDER
MINISTER OF FINANCE

NOTES FOR A
MEETING WITH

HONOURABLE MICHAEL WILSON
MINISTER OF FINANCE - CANADA

WINNIPEG, MANITOBA
NOVEMBER 26, 1984

INTRODUCTION

MANITOBANS HAVE A SENSE OF PRIDE IN THE RELATIVE SUCCESS WITH WHICH OUR PROVINCE WEATHERED THE RECESSION AND STARTED ON THE PATH TOWARDS SUSTAINED RECOVERY.

WE HAVE EMPHASIZED MEASURES TO HELP SUSTAIN OUR ECONOMY, IMPROVE LONGER TERM POTENTIAL AND CREATE JOBS BOTH NOW AND IN THE FUTURE. THE BALANCED AND DIVERSIFIED PROVINCIAL ECONOMY HAS BEEN A KEY FACTOR IN SUCCESS TO DATE AS HAS THE LEADERSHIP SHOWN BY OUR GOVERNMENT.

DESPITE MANITOBA'S LESS SEVERE DOWNTURN AND EARLIER INVESTMENT RECOVERY, A SUBSTANTIAL, 8% GAP STILL EXISTS BETWEEN REAL OUTPUT PER MANITOBAN AND NATIONAL PER CAPITA OUTPUT. AND UNEMPLOYMENT REMAINS UNACCEPTABLY HIGH.

AT A MINIMUM THEN, EXISTING EFFORTS TO REBUILD OUR ECONOMY AND CREATE MEANINGFUL AND PRODUCTIVE JOB OPPORTUNITIES MUST BE CONTINUED.

FEDERAL TRANSFERS

FEDERAL SUPPORT IS EXTREMELY IMPORTANT TO MANITOBA. FEDERAL TRANSFERS ACCOUNT FOR ABOUT 36% OF OUR REVENUE TODAY, SIGNIFICANTLY LOWER THAN THE 43% FIVE YEARS AGO, BUT NONETHELESS SUBSTANTIAL.

I AM CONCERNED THAT ANY FURTHER EROSION IN FEDERAL SUPPORT, WOULD MAKE IT EXTREMELY DIFFICULT, IF NOT IMPOSSIBLE, FOR OUR GOVERNMENT TO MAINTAIN EXISTING INITIATIVES TO FOSTER ECONOMIC RENEWAL.

IT IS IN THIS CONTEXT THAT PREMIER PAWLEY HAS REFERRED TO RESOLUTION OF THE THREATENED CUT OF $72 MILLION IN EQUALIZATION SUPPORT TO MANITOBA NEXT YEAR AS OUR MOST PRESSING IMMEDIATE ECONOMIC PROBLEM. I CAN UNDERSTAND THAT YOUR GOVERNMENT MAY NOT YET HAVE HAD AN OPPORTUNITY TO REVIEW THAT PROBLEM. BUT, I WOULD LIKE TO UNDERSCORE ITS MAJOR IMPORTANCE TO MANITOBA.

AS INDICATED IN MY LETTER TO YOU, WE BELIEVE AN APPROPRIATE REMEDY TO THIS PROBLEM WOULD PROVIDE SOME GROWTH IN OUR EQUALIZATION SUPPORT, CONSISTENT WITH OUR INCREASING NEEDS, EVEN AS MEASURED UNDER THE NEW

FORMULA. WE BELIEVE THAT WOULD BE AN INTERIM SOLUTION WHICH WOULD PROVIDE THE TIME NEEDED FOR A MORE THOROUGH REVIEW OF EQUALIZATION.

MY STAFF PREPARED A BACKGROUND PAPER ON EQUALIZATION WHICH I WOULD LIKE TO LEAVE WITH YOU AND YOUR DEPARTMENT.

AS WELL, LIKE OTHER PROVINCES, WE REMAIN CONCERNED THAT FEDERAL SUPPORT FOR HEALTH AND POST-SECONDARY EDUCATION, IN RELATION TO PROGRAM COST, HAS FALLEN FROM 54% TO 43% OVER THE LAST FIVE YEARS.

CONCERNS RE NOVEMBER 8 FEDERAL ANNOUNCEMENTS

OUR RESPECTIVE GOVERNMENTS ARE IN AGREEMENT ON THE IMPORTANT CONTRIBUTION COOPERATIVE FEDERAL-PROVINCIAL RELATIONS CAN MAKE TO A HEALTHY AND VIBRANT ECONOMY. FOR THAT REASON I WAS PLEASED AT YOUR STATED INTENTION TO UNDERTAKE EXTENSIVE CONSULTATIONS WITH ALL THE PROVINCES.

IN YOUR EFFORTS TO DEAL WITH THE FEDERAL DEFICIT, I WOULD RECOMMEND THAT YOU EXAMINE THE INCOME

TAX SYSTEM. IN MY VIEW, THERE IS CONSIDERABLE POTENTIAL FOR REVENUE IMPROVEMENTS THROUGH REVIEW AND ELIMINATION OF VARIOUS LOOPHOLES AND INCENTIVES, THE PROLIFERATION OF WHICH HAS CONTRIBUTED TO HIGH INCOME CANADIANS AND CORPORATIONS BENEFITTING FROM LOWER EFFECTIVE TAX RATES TODAY THAN IN 1972.

I AM ENCOURAGED BY YOUR INITIATIVES TO DATE; THE CANCELLATION OF THE "QUICK-FLIP" FEATURE IN THE SRTC, AND THE MORATORIUM ON ADVANCE RULINGS ON LIMITED PARTNERSHIPS CREATED TO FLOW-THROUGH UNUSED CORPORATE TAX PREFERENCES.

OUR GOVERNMENT IS STILL RECEIVING AND REVIEWING THE RESULTS OF PRELIMINARY EXAMINATIONS BY PROVINCIAL DEPARTMENTS OF THE VARIOUS ANNOUNCEMENTS MADE ON NOVEMBER 8.

WE WERE PLEASED WITH THE EXTENSIONS TO THE SPOUSES ALLOWANCE PROGRAM AND IMPROVEMENTS TO VETERANS' PENSIONS. OUR FARMERS WILL BENEFIT FROM THE PARTIAL REBATE OF THE FEDERAL SALES TAX ON FARM FUELS. UNFORTUNATELY, HOWEVER, MUCH OF THIS BENEFIT WILL DISAPPEAR WITH THE IMPLEMENTATION OF A WORLD OIL PRICING REGIME.

WE ARE EXTREMELY CONCERNED THAT MANY OF THE ANNOUNCEMENTS APPARENTLY INVOLVE SEVERE JOB LOSSES IN MANITOBA. AS YOU KNOW, MANITOBA IS STRUGGLING TO MAINTAIN EMPLOYMENT LEVELS AT THE PRESENT TIME. OUR INITIAL REVIEW SUGGESTS THAT FEDERAL CUTS INVOLVE SIGNIFICANT INVESTMENT AND JOB LOSSES. THE LOSSES ASSOCIATED WITH THE CUTS INCLUDE:

- THE ANNOUNCED CUT IN INDUSTRIAL INCENTIVES ESTIMATED TO INVOLVE $16 MILLION IN FEDERAL SUPPORT FOR MANITOBA, $75 MILLION IN PRIVATE INVESTMENT, AND THE LOSS OF 1,500 DIRECT JOBS AND 1,200 INDIRECT JOBS;

- THE ANNOUNCED CANCELLATION OF THE NATIONAL MANUFACTURING TECHNOLOGY INSTITUTE ESTIMATED TO INVOLVE $23 MILLION IN FEDERAL SUPPORT, AND 175 DIRECT JOBS. SOME $300 MILLION IN PRIVATE INVESTMENT IN MANITOBA ALONG WITH 1,600 JOBS, IS SAID TO DEPEND ON THE INSTITUTE. AND ITS CANCELLATION WOULD HAVE SIGNIFICANT EFFECTS ON THE REST OF THE COUNTRY.

- THE POSSIBLE CANCELLATION OF THE VIA RAIL MAINTENANCE CENTRE IN WINNIPEG INVOLVING $28 MILLION AND ABOUT 200 DIRECT JOBS;

- CANERTECH, 13 JOBS;

- ROCKET AND BALLOON FACILITIES AT CHURCHILL AND GIMLI, 50 JOBS;

- SUMMER CANADA, OVER 2,000 SUMMER JOBS;

- THE INCREASED PETROLEUM COMPENSATION CHARGE INVOLVING AN ADDITIONAL $51 MILLION OUTFLOW OF TAX DOLLARS FROM MANITOBA AND A LOSS OF OVER 1,400 JOBS.

THE TOTALS ON THIS ABBREVIATED LIST COME TO OVER 4,000 PERMANENT JOBS AND IN ADDITION, MORE THAN 2,000 SUMMER JOBS. THESE TOTALS DO NOT INCLUDE THE 1,600 JOBS LINKED TO POTENTIAL INVESTMENT PLANS ASSOCIATED WITH THE TECHNOLOGY INSTITUTE. I AM SURE YOU CAN APPRECIATE MY CONCERN.

LIKE ALL OTHER CANADIANS, MANITOBANS WOULD LIKE TO START OFF THE NEW YEAR UNDER NEW FEDERAL

LEADERSHIP OPTIMISTIC THAT NEW JOB OPPORTUNITIES WILL BE AVAILABLE. HOWEVER, WE ARE CONCERNED THAT ALONG WITH THE ECONOMIC SLOWDOWN WHICH IS PREDICTED FOR NEXT YEAR, ANY JOB LOSSES RESULTING FROM FEDERAL ACTIONS COULD DEAL A FURTHER BLOW TO CONFIDENCE IN SUSTAINED GROWTH AND INVESTMENT RECOVERY. SO, ANY POSITIVE NEWS YOU MAY HAVE ON THE LIKELY EFFECTS OF YOUR ECONOMIC STATEMENT ON BUSINESS INVESTMENT AND JOBS IN MANITOBA WOULD BE WARMLY WELCOME. IT WOULD HELP OUR OWN ECONOMIC PLANNING HERE IN MANITOBA TO HEAR YOUR VIEWS ON WHERE THE NEW JOBS WILL COME FROM.

THE PRIME MINISTER HAS ASSURED ALL PREMIERS THAT ANY FEDERAL SPENDING ADJUSTMENTS WOULD BE CARRIED OUT ON A BASIS FAIR TO THE PROVINCES AND REGIONS OF CANADA, CONSISTENT WITH THE NATIONAL GOVERNMENT'S CONSTITUTIONAL COMMITMENT TO ALLEVIATING REGIONAL DISPARITIES, AND IN CONSULTATION WITH AFFECTED PROVINCES.

IN FULFILLING THOSE COMMITMENTS, IT IS CLEAR THAT YOUR DEPARTMENT OR THE PRIME MINISTER'S OFFICE MUST BE MONITORING AND TRACKING THE REGIONAL DIMENSIONS OF THE POLICY CHANGES ANNOUNCED IN YOUR STATEMENT. IN THE INTERESTS OF FOSTERING COOPERATIVE FEDERAL-PROVINCIAL

RELATIONS, IT WOULD BE HELPFUL IF YOU WOULD ARRANGE TO MAKE THOSE REPORTS AND ANY ASSESSMENTS OF THEIR EFFECTS AVAILABLE TO US.

BACKGROUND ON EQUALIZATION

Manitoba
Finance

OCTOBER, 1984

Purpose of Equalization

Equalization is a national program under which the federal government provides cash payments to the poorer provinces. Its purpose, as defined in the Constitution is to ensure:

> "that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

The level of equalization has a profound impact on the ability of receiving provinces to provide national calibre programs and services without increasing their taxes.

Equalization Benchmark Reduced

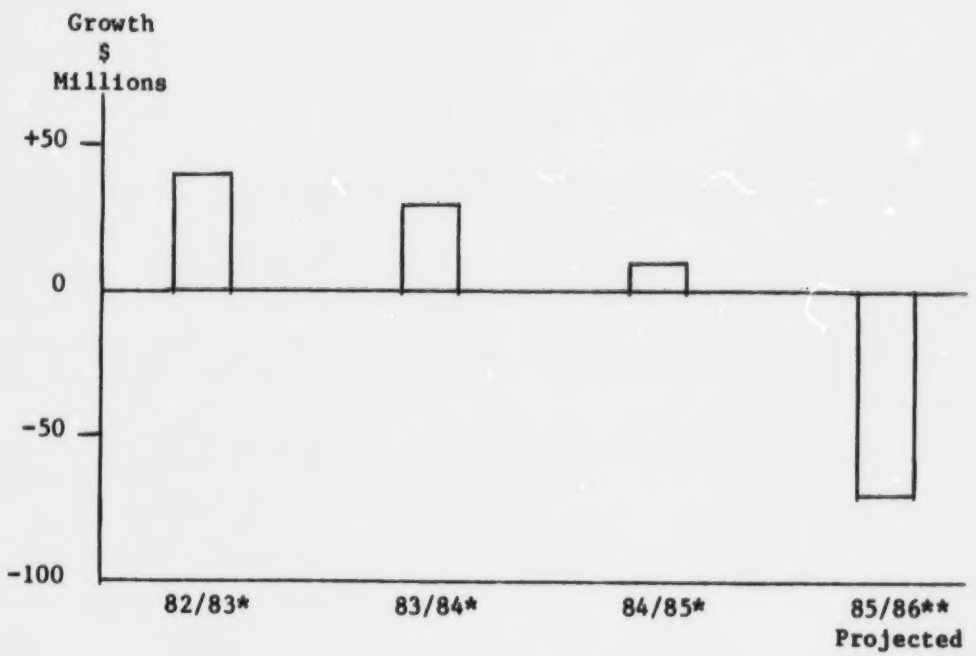
In 1982, to reduce the overall costs of equalization, the federal government unilaterally changed the formula. The most significant change was the lowering of the standard or benchmark of equalization from the all-province national average to the five-province so-called "representative average".

Manitoba remains very much concerned with the damaging effects the lower standard has on the ability of all six recipient provinces (Manitoba, Quebec, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland) to provide adequate public services and hold their tax rates to levels competitive with the four richest provinces. For Manitoba, the latest available information suggests that the federal equalization formula support falls some $200 per person (over $200 million in total) short of the amounts necessary to bring our revenues up to the national average.

$72 Million Further Cut

For the coming year, rather than closing that gap, current federal forecasts suggest equalization support to Manitoba will be cut by about $72 million. That will happen if the federal government permits the special transitional provisions to lapse.

MANITOBA EQUALIZATION ENTITLEMENTS GROWTH 1982/83 TO 1985/86



* Includes transitional provisions.
** After floor provision.

Source: Federal Department of Finance.

Failure of Transitional Measures

Transitional arrangements were introduced in 1982 to ensure that no province faced an absolute year-over-year loss in equalization as a result of the lowering of the equalization standard. The arrangements covered the first three years of the new formula in the expectation (based on federal forecasts at the time) that entitlements under the formula in the fourth year (1985-86) would exceed the levels guaranteed by transition.

Unfortunately, as is evident in the forecast $72 million decline in Manitoba's equalization support next year, the transitional arrangements have simply failed to achieve their objective.

Impact on Manitoba

The severity of the problem facing our Province is evident in a number of facts.

1. The new equalization formula indicates that Manitoba's need for equalization is increasing by in the 7% to 9% range next year. However, unless transition is extended, Ottawa will cut our support by 15%.

2. Unless transition is extended, Manitoba's equalization support next year is forecast to be 1.2% lower on a per person basis than in 1981/82, the last year of the all-province national average system. (Table 1)

3. Manitoba is the only province forecast to receive less per person next year than 1981-82. In contrast, the other five recipient provinces are to receive increases averaging 19.3% per person compared with 1981/82. (Table 1)

Table 1 EQUALIZATION PER CAPITA ENTITLEMENTS			
	1981-82 $	1985-86 $	% Change*
Manitoba	388	384	-1.2
Five other Recipients	461	550	+19.3
National Total	453	532	+17.4

4. It should be noted that the reduction forecast for Manitoba is to occur despite inflation of about 25% between 1981-82 and 1985-86 and despite the fact that the new formula suggests a one-third increase in Manitoba's equalization need since 1982-83. (Table 2)

Table 2 GROWTH RATES MANITOBA ENTITLEMENT (NEW FORMULA) VS FEDERAL EQUALIZATION SUPPORT TO MANITOBA			
	Formula Growth (%)	Inflation (%)	Payment Growth (%)
1982-83 to 1985-86	+33	25	-7.1
1982-83 to 1986-87	+45	25+	-8.9

5. Unless transition is extended, Manitoba's share of equalization under the new formula is to be cut to 7.0% compared with more than 9% under the previous formula. (Table 3)

6. In total, despite continuing increases in the Province's need for equalization (even under the new formula), Manitoba would receive less in equalization in 1985/86 ($408 million) than in 1982/83 ($439 million), the first year of the new formula. (Table 3)

7. Manitoba is the only province projected by Ottawa to experience a further reduction in 1986/87. (Table 3)

Table 3 **MANITOBA EQUALIZATION ENTITLEMENTS**

	$ Millions	Share of National Total (%)
1981-82	399	9.1
1982-83	439*	9.0
1983-84	467*	9.0
1984-85	480*	8.9
1985-86	408**	7.7
1986-87	400	7.0

*Includes transitional payments of $163, $177 and $142, respectively.
**Includes floor provision of $41.

Urgency for Federal Action

The urgency for prompt federal action is clear. If Ottawa proceeds with the equalization cut, Manitoba's revenue growth will be reduced to $25 million or 0.8%. As our increasing needs measured under the new formula attest, the Province simply lacks the resources to absorb such a cut and prevent it from affecting programs and services for Manitobans.

Manitoba's Proposals

It is our view that we should return to a fair national average standard to ensure equity in our equalization system. However, as an immediate remedy to our problem, Manitoba has proposed that transitional arrangements be extended. Under the provincial request, Manitoba's equalization entitlements would be based on our 1984/85 equalization support increased by half the annual increase in the Province's entitlement for equalization under the formula.

That approach would assure the Province of some increase in its equalization payments commensurate with needs, clearly a much better situation than inflicting major cuts. At the same time, the federal government, in cooperation with the provinces, should re-examine the whole question of equalization with a view to ensuring that its fundamental objectives as enshrined in the Constitution will be met.

SUPPLEMENTARY INFORMATION

THE EFFECT OF FEDERAL TRANSFER PAYMENT CUTBACKS ON MANITOBA

DEPARTMENT OF FINANCE
GOVERNMENT OF MANITOBA
OCTOBER, 1984

Introduction

This paper summarizes available information on the degree to which federal transfer payments to Manitoba have been and are projected to be cut back and the effect these projected cutbacks would have on the Province's fiscal situation in 1985/86.

Established Programs Financing

The Established Programs Financing (EPF) arrangements provide federal support toward the costs of health and post-secondary education programs. The arrangements provide for one block of funding with cash and tax transfer components. The block is escalated by a three year moving average of G.N.P. growth.

In 1982, the so-called Revenue Guarantee component was removed from EPF. In 1983/84 and 1984/85, the portion of the financing arbitrarily deemed by the federal government to be applicable to post-secondary education was capped. Both these measures not only reduced payments in the years in which they were applied, but also reduced the size of the block and therefore, as the escalator is applied to the new reduced base, the cutback is magnified annually. The effects of these measures are shown in Table 1.

Table 1 **EPF CUTBACKS ($ Millions)**

	Revenue Guarantee	PSE Capping	Total
1982/83	35	-	35
1983/84	38	5	43
1984/85	41	11	52
1985/86	45	12	57
1986/87	49	14	63
Five Year Total	208	42	250

Equalization

In 1982, when the federal government changed the equalization formula, Ottawa claimed that its new formula, including transitional provisions, would yield payments to Manitoba of $431 million in 1982-83, $457 million in 1983-84, $470 million in 1984-85, $488 million in 1985-86 and $538 million in 1986-87, for a five year total of $2,384 million.

Compared with estimates of equalization support under the extension of the former system agreed to by all ten provinces, implementation of the new formula provided significantly less equalization support to Manitoba. The forecast losses to Manitoba were $21 million in 1982-83, $78 million in 1983-84, $124 million in 1984-85, $169 million in 1985-86 and $190 million in 1986-87 for a five year total of $582 million.

Table 2 **EQUALIZATION ENTITLEMENTS MANITOBA**
($ millions)

	Old Formula(1)	New Formula(2)	Loss
1982-83	452	431	-21
1983-84	536	457	-78
1984-85	594	470	-124
1985-86	657	488	-169
1986-87	728	538	-190
5 years	2,966	2,384	-582

(1) March, 1982 Concensus Provincial Estimates.
(2) March, 1982 Federal Finance Estimates.

Estimates published with the 1984 Quebec Budget suggested that the new formula would pay Manitoba $2,172 million over the 1982-1987 period compared with the earlier federal estimate of $2,384 million. The lower estimate published by Quebec represents a shortfall of some $212 million under the new system from Ottawa's 1982 estimates.

Table 3 **MANITOBA EQUALIZATION ENTITLEMENTS NEW FORMULA — MARCH, 1982 FEDERAL ESTIMATES VS 1984 QUEBEC ESTIMATES**
($ millions)

	March, 1982 Federal Estimates	May, 1984 Quebec Estimates	Difference
1982-83	431	439	+8
1983-84	457	466	+9
1984-85	470	480	+10
1985-86	488	408	-80
1986-87	538	379	-159
5 years	2,384	2,172	-212

The last available estimates from Ottawa are similar to the Quebec estimates. They suggest a five year total for Manitoba of $2,194 million, or $190 million less than promised by the federal government when the new system was implemented in 1982.

Table 4 **MANITOBA EQUALIZATION ENTITLEMENTS 1982 FEDERAL ESTIMATES VS 1984 FEDERAL ESTIMATES**
($ millions)

	1982	1984	Difference
1982-83	431	439	+8
1983-84	457	467	+10
1984-85	470	480	+10
1985-86	488	408	-80
1986-87	538	400	-138
5 years	2,384	2,194	-190

Whether the shortfall from the 1982 federal estimates is $190 million or $212 million makes little difference from a Manitoba financial perspective. In either case, Ottawa's new formula is delivering substantially less than promised, with accompanying consequences for the Province's finances.

Equalization Transitional Arrangements

It should be noted that the transitional arrangements secured in 1982 to cushion Manitoba in adjusting to the new system protected Manitoba from an even more serious situation. For Manitoba, the new formula itself is producing results about 25% below federal expectations. Fortunately, the transitional arrangements insulated Manitoba from that unforeseen consequence.

Table 5 **MANITOBA EQUALIZATION SUPPORT**
($ millions)

	March, 1982 Federal Estimate			1984 Federal Estimate		
1981-82			392			399
	Formula	Transition	Total	Formula	Transition/ Floor	Total
1982-83	349	82	431	276	163	439
1983-84	401	56	457	290	177	467
1984-85	443	27	470	343	137	480
1985-86	488	-	488	367	41*	408
1986-87	538	-	538	400	-	400
5-Years	2,219	165	2,384	1,676	518	2,194

* Under "floor" provisions, Manitoba's equalization support cannot drop more than 15% year-over-year -- hence the $41 million in 1985-86.

Unfortunately, however, the transitional arrangements also masked the serious failings of the new formula and permitted the federal government to avoid dealing with the problem in 1982-83 or since then. In effect, the transitional arrangements introduced to protect Manitoba provided minimum guarantees for all recipient provinces and meant that the problems with the new formula did not have to be addressed immediately.

$72 Million Equalization Cut

The serious nature of the situation is evident when one examines the year over year changes in equalization.

Table 6 **MANITOBA'S EQUALIZATION — CURRENT ESTIMATES**
($ Millions)

	Total	Manitoba's Share (%)	Change from Previous Year ($)	Change from Previous Year (%)
1982-83	439	9.0	+40	10.0
1983-84	467	9.0	+28	6.4
1984-85	480	8.9	+13	2.8
1985-86	408	7.7	-72	-15.0
1986-87	400	7.0	-8	-2.0

As the table shows, Ottawa now forecasts that Manitoba will lose $72 million or 15% of its entire equalization support next year, and a further $8 million in 1986-87. In both years Manitoba would receive less in total than in the very first year of the formula, 1982-83, hardly an acceptable result after consistent increases in the Province's need for equalization support as measured under the new formula. If Ottawa proceeds with that cut, overall revenue growth in Manitoba will be reduced to 0.8%, or $25 million.

The cutbacks place a severe strain on the provinces and affect their ability to maintain programs while containing tax increases.

Federal Transfer Payment Deficiency

The EPF cutbacks, combined with the general inadequacy of the bloc-funding formula to keep pace with necessary increases in expenditures to maintain quality health care and post-secondary education programs, have resulted in the federal share of Manitoba expenditures on these programs dropping from 54% in 1979/80 to 43% in 1984/85. The EPF transfer payments now fall approximately $100 million short of what would be required for equal sharing in the costs of these programs as shown in Table 7.

Table 7 **ESTABLISHED PROGRAMS FINANCING (EPF) ARRANGEMENTS GOVERNMENT OF MANITOBA ($ Millions)**

	Total Manitoba Expenditures on Health and Post-Secondary Education	50% of Manitoba Expenditures	Federal EPF Contribution (Cash plus Tax)	Deficiency from Equal Cost-Sharing
1982/83	1,191	596	511	85
1983/84	1,334	667	569	98
1984/85	1,429	714	617	97

The equalization program as currently formulated leaves equalization recipient provinces with revenue capacities well below the national average. For Manitoba in 1985/86 that deficiency translates into $277 million (see Table 8). Thus even without the $72 million cut, Manitoba's revenue would fall about $200 million below what the Province would receive if the formula provided equalization to the ten-province average standard.

Table 8

EQUALIZATION ENTITLEMENTS
GOVERNMENT OF MANITOBA
($ Millions)

	Formula			Deficiency From Ten Province Standard	
	Ten Province Standard	Five Province Standard	Five Province Standard plus Transition and Floor	Five Province Standard	With Transition and Floor Provision
1982/83	491	276	439	215	52
1983/84	543	290	467	253	76
1984/85	608	343	480	265	128
1985/86	685	367	408	318	277
1986/87	740	400	400	340	340
Five Year Total	3,067	1,676	2,194	1,391	873
As % of Ten-Province Standard	100	55	72	45	28

The erosion in federal support is also evident in the share of the federal Budget devoted to these transfers. Certainly, federal transfers have not been a contributor to increases in the federal deficit. In fact, federal projections indicate that EPF and equalization payments will fall from 19.4% of federal spending excluding public debt charges in 1981-82 to 16.9% in 1985-86. A similar decline is evident in federal transfers as a proportion of Manitoba's revenue -- from 42.7% in 1979-80 and 38.4% in 1981-82 to 35.9% in 1984-85 and even less next year.

In short, federal transfers have been significantly eroded as a share of the federal Budget, as a share of the Manitoba Budget and as a share of overall program costs.

Urgency for Federal Action

For 1985/86, if Ottawa proceeds with the $72 million equalization cut, overall revenue growth in Manitoba will be reduced to 0.8%, or $25 million.

There are several good reasons why that cut should not be permitted to occur -- the main one being its impact on provincial programs and services. Available federal forecasts indicate a significant increase in Manitoba's need for equalization support next year. Yet, Ottawa plans to cut its equalization support to Manitoba by 15%, or $72 million. Next year, Manitoba's per capita equalization suport would be 1.2% lower than 1981-82. In contrast, the other recipient provinces are to receive 19.3% per person more than 1981-82. Manitoba's share of equalization would drop to 7% compared with over 9% in the 1977-1981 period.

Over the last three years, Manitoba's spending, which included significant recession-fighting and economic rebuilding initiatives, has been held to significantly lower growth rates than under the former administration. In the last Tory year, 1981-82, Manitoba's spending increased by 18.2%. Since then, the spending growth rate has been held to successively lower levels -- 16.9% in 1982-83, 13.5% in 1983-84, and 7.2% this year. By the same token, Conference Board analysis of this year's Provincial budgets confirms that Manitoba's spending at $3,111 per person is third lowest among the provinces and close to 9% below the all-province average. That analysis supports the view that Manitoba has succeeded in accommodating major initiatives to enhance the economy within one of the country's lowest per capita spending rates.

The economy of Manitoba has improved. Provincial spending growth has been contained. Where necessary, taxes have been increased. Nonetheless, the challenge facing the Province next year would be difficult even if federal support were maintained. However, the situation will be much more serious if Ottawa proceeds with the termination of the transitional arrangements in the equalizaton program. The resulting cuts would reduce already moderate revenue growth for Manitoba of about 3% to under 1%.

MANITOBA

MINISTER OF FINANCE
WINNIPEG
R3C 0V8

OCT 5 1984

Honourable Michael Wilson
Minister of Finance
Government of Canada
Place Bell Canada
160 Elgin Street
OTTAWA, Ontario
K1A 0G6

Dear Mr. Wilson:

By this time you have undoubtedly been briefed by officials about the impact on Manitoba of the scheduled termination of the transitional arrangements under equalization. As I indicated to you in my letter of September 7, 1984, this is of great importance to Manitoba, and its resolution must in our view receive urgent attention.

Our Province is now well advanced in its planning for the coming fiscal year. Current projections suggest growth of close to $100 million or 4% in our revenues from sources other than equalization. However, current forecasts also envisage a $72 million reduction in our equalization support next year which would reduce overall revenue growth to less than 1% or $25 million.

Clearly, resolution of the equalization problem will play a key role in the decisions which our Province must take, both on programs and services and on the tax levels which Manitobans will be called on to bear in 1985/86. Resolution would also be a positive factor in reviews of Manitoba by the major credit rating agencies, an important consideration in current circumstances, with our Province on the verge of major hydro and other developments sensitive to the strength of credit ratings and interest costs.

I have considerable confidence that your Government recognizes the facts of the situation. When Bill C-97 was introduced in 1982, I spoke to the Parliamentary Standing Committee on Finance, Trade and Economic Affairs and received a fair hearing. Subsequently, members of your Party made eloquent comments about the damage that Bill would inflict on provincial finances, how that damage would be distributed inequitably, and how it would fall most heavily, by far, on Manitoba. Manitobans are aware of and appreciate the concern shown for our Province — including the strong bi-partisan cooperation in proposing measures to

protect Manitoba from these damaging measures. I, too, greatly appreciate that effort. I have little doubt that it helped secure the transitional arrangements which initially protected Manitoba from an unwarranted and precipitous decline in equalization support.

The transitional arrangements recognized that the projected decline in support to Manitoba in 1982/83 was not related to any reduction in our need for equalization but solely to changes in the formula. Moreover, the arrangements were put in place for three years on the basis of .ederal projections indicating that by 1985/86, Manitoba's entitlement under the revised formula would exceed the guaranteed levels.

Certain statements you made in that 1982 debate have proven prophetic. Unfortunately, Mr. MacEachen's projections for revenue growth were overly optimistic, and the cutback in federal transfer revenue to provinces far exceeded his projections. As a result, despite the three-year transitional arrangements, we now face a more precipitous decline in equalization support, $72 million next year compared with the $43 million decline initially projected for 1982/83. Moreover, this decline is projected despite continuing increases in our need for equalization.

In our view, this problem should be resolved by extending the transitional arrangements to ensure that they accomplish what they were originally established to do. As I indicated in my previous letter, one approach would be to guarantee those provinces, whose entitlements were increasing under the formula, equalization payments increasing by at least one-half the growth rate in their formula entitlements. Such an arrangement would assure smooth transition to the new formula without absolute cuts in federal support to any province. Under this approach, the transitional arrangement itself would be phased out automatically, as the need for it declined. Such an arrangement would also provide time for the comprehensive review of the new formula, which our Province and others feel is required.

Once again, I feel I must emphasize what is at stake. Manitoba has been the hardest hit by the provisions of Bill C-97. We have had slow growth in federal transfer revenue since 1980/81. In spite of three years of demonstrably increasing need for equalization support under the new formula, current projections envisage Manitoba receiving 1.2% less in nominal terms on a per capita basis next year than in 1981/82. Federal EPF funding has dropped to the range of 40% of health costs after being in excess of 50% in 1979/80. A similar drop has occurred in the defined

portion of EPF in respect of post-secondary education as a proportion of post-secondary education expenditure.

In the face of reduced revenue growth due to federal cutbacks and the national recession, the Government of Manitoba took measures to sustain the economy and to protect vital public services. In those circumstances, it was necessary to increase both taxes and the provincial deficit. I believe the success of our programs is reflected in the relatively strong provincial economic performance. However, we also recognize the value of containing and reducing our deficit as much as possible as the economy recovers. This is, as I am sure you would agree, a sufficiently challenging task with 4% revenue growth.

If faced with an equalization cut of $72 million which would reduce our revenue growth to under one percent, either the quality of our basic services would be threatened or the Province would face the prospect of further tax increases at a time when the economic recovery is still fragile and unemployment remains unacceptably high. In addition, our capacity to sustain measures to improve our economy would be placed under much more serious pressure. These limited choices for Manitoba were graphically outlined by the Honourable Jake Epp, when he spoke on fiscal arrangements in 1982.

Your clear understanding and deep appreciation of this issue was amply evident at the time of the introduction of Bill C-97. I am therefore hopeful your Government will be able to move quickly towards an expeditious resolution.

Yours sincerely,
Original Signed By
VIC SCHROEDER

Vic Schroeder,
Minister of Finance.

SEP 7 1984

Hon. Michael H. Wilson, P.C., M.P.
Etobicoke Centre
Room 774 Confederation Building
House of Commons
OTTAWA, Ontario
K1A 0A6

Dear Mr. Wilson:

I would like to add my congratulations to all those which you are now receiving. The election results vividly demonstrated the desire of Canadians for a significant change in national leadership.

As the results were unfolding Tuesday night, I recalled our cordial discussions in my office over a year ago on many of the issues of importance to Canada's economic and social well-being. I was favourably impressed with your pragmatic approach to dealing with sensitive issues. Our Government is encouraged with your Party's commitment to a restoration of harmonious federal-provincial relations based on a renewed spirit of cooperative federalism. We are therefore looking forward with considerable anticipation to working with your new Government.

Last year we also discussed the serious problem facing Manitoba under the new equalization formula. Current estimates suggest that our Province will receive some $72 million, or 15% less in federal equalization support next year than this year despite the fact that our need for equalization under the formula is estimated to increase by close to 8%.

The loss results from the scheduled termination of special equalization transition arrangements introduced in 1982 to protect have-not provinces from reductions in equalization support in adjusting to the new formula. Those transitional arrangements recognized the inherent inability of recipient provinces to absorb any absolute cut in equalization support flowing from a change in formula and not from improvement in the province's revenue potential.

Obviously this is a matter of urgent concern to Manitoba. The projected loss is equivalent to about 2 1/2% of our total revenue this year. And it is an ominous cloud over our planning for 1985-86.

In our view the best means of dealing with this problem would be an extension of the transitional arrangements to ensure that they accomplish what they were originally established to do. One possible approach would be to guarantee provinces with increasing formula entitlements that their equalization support will be increased by, say, one-half the growth rate in their formula entitlements. Such an arrangement would assure complete transition to the new formula without absolute cuts in federal support. It would ensure that the transitional arrangement itself would phase-out automatically as its purpose and intent was fulfilled. Finally, it would also provide time for the comprehensive review of the new formula, which our Province and others feel to be required.

Any assistance you may be able to provide in resolving the problem or at least in assuring that it is considered expeditiously would be most appreciated. Both myself and staff would be pleased to discuss the problem and our proposal with you and to respond to any questions or suggestions you may have.

Again, let me congratulate you on a dramatic election victory. Like other provinces, Manitoba looks forward to dealing with the new federal government in a spirit of cooperation and respect.

Yours sincerely,

Vic Schroeder,
Minister of Finance.

LER OF OPP OTT

FIN FPR WPG

SEPTEMBER 5, 1984

PLEASE FORWARD THE FOLLOWING TELEX TO MR. MULRONEY.

TO: MR. M. BRIAN MULRONEY, M.P.
LEADER OF THE OPPOSITION AND PRIME MINISTER-ELECT
C/O OFFICE OF LEADER OF THE OPPOSITION
409 - S
PARLIAMENT BUILDINGS
OTTAWA, ONTARIO

FM: HONOURABLE HOWARD PAWLEY
PREMIER OF MANITOBA

DEAR MR. MULRONEY:

MY COLLEAGUES IN THE GOVERNMENT OF MANITOBA JOIN WITH ME IN OFFERING YOU OUR SINCERE CONGRATULATIONS ON YOUR DECISIVE VICTORY ON SEPTEMBER 4TH.

YOU AND YOUR NEW ADMINISTRATION WILL TAKE OFFICE WITH A STRONG AND TRULY NATIONAL MANDATE, MARKED BY SIGNIFICANT REPRESENTATION FROM ALL PROVINCES AND REGIONS.

YOUR NEW RESPONSIBILITIES WILL BE EXTREMELY HEAVY, BUT YOU WILL ALSO HAVE A UNIQUE OPPORTUNITY TO WORK TOWARD RECONCILING REGIONAL DIFFERENCES, CORRECTING REGIONAL DISPARITIES AND DEVELOPING NATIONAL POLICIES WITH EFFECTIVE INPUT FROM ACROSS THE COUNTRY AND WITH IMPACTS WHICH ARE FAIR TO ALL PROVINCES.

OUR GOVERNMENT HAS BEEN VERY ENCOURAGED BY YOUR COMMITMENT TO IMPROVE FEDERAL-PROVINCIAL RELATIONS IN THE YEARS AHEAD. I WANT TO ASSURE YOU THAT IMPROVED FEDERAL-PROVINCIAL COOPERATION IS A TOP PRIORITY FOR OUR GOVERNMENT AS WELL, AND WE LOOK FORWARD TO WORKING CLOSELY WITH YOU AND YOUR COLLEAGUES TO MAKE THAT GOAL A REALITY -- STARTING, AS ALL TEN PROVINCIAL PREMIERS SUGGESTED AT OUR RECENT CONFERENCE IN CHARLOTTETOWN, WITH A NEW AND POSITIVE FEDERAL-PROVINCIAL APPROACH TO THE FORMATION OF AN ECONOMIC POLICY FOR CANADA.

AS YOU WILL KNOW, MANITOBA HAS BEEN WIDELY ACKNOWLEDGED, OVER THE PAST FEW YEARS, AS PROBABLY THE BEST EXAMPLE IN THE COUNTRY -- IN FACT, AS A MODEL FOR CANADA -- OF THE BENEFITS OF A CONSTRUCTIVE, COOPERATIVE RELATIONSHIP BETWEEN THE FEDERAL AND PROVINCIAL GOVERNMENTS. THE MANITOBA ECONOMY HAS ALREADY BENEFITTED GREATLY FROM EXPANDED FEDERAL INVESTMENT IN OUR PROVINCE, AND OVER DOLLARS 400 MILLION IN COMPLEMENTARY ECONOMIC DEVELOPMENT INITIATIVES ARE NOW UNDERWAY THROUGH A SERIES OF SUBSIDIARY AGREEMENTS UNDER THE CANADA-MANITOBA ECONOMIC AND REGIONAL DEVELOPMENT AGREEMENT. THE FEDERAL-PROVINCIAL ''ERDA'' PROCESS HAS WORKED WELL FOR MANITOBA, AND WE WOULD HOPE THAT YOUR NEW GOVERNMENT'S STRUCTURE WILL TAKE ACCOUNT OF THE ADVANTAGES OF THE ERDA APPROACH AND OF THE NEED, WITHIN THE GOVERNMENT OF CANADA, FOR A CONTINUING SENSITIVITY TO THE DIFFERING STRENGTHS AND DEVELOPMENT OPPORTUNITIES FOR INDIVIDUAL PROVINCES AND REGIONS.

I HOPE IT WILL BE POSSIBLE FOR US TO ARRANGE AN EARLY MEETING AT WHICH WE CAN REVIEW ECONOMIC DEVELOPMENT AND OTHER PRIORITIES AND AT WHICH WE CAN DISCUSS CERTAIN PROBLEMS OF PARTICULAR CONCERN TO MANITOBA. THE MOST URGENT OF THESE, AS I BELIEVE YOU ARE AWARE, IS THE THREAT OF A DOLLARS 72 MILLION REDUCTION IN EQUALIZATION PAYMENTS TO OUR PROVINCE IN THE NEXT FISCAL YEAR AND A FURTHER REDUCTION OF AT LEAST DOLLARS 8 MILLION THE YEAR AFTER. IN THIS CONNECTION, THE EQUALIZATION PAYMENT ''OFFSET'' GUARANTEE IN YOUR RECENT AGREEMENT IN PRINCIPLE WITH THE PREMIER OF NEWFOUNDLAND CONCERNING OFFSHORE MINERAL RESOURCES IS ENCOURAGING TO US AS A DEMONSTRATION OF YOUR RECOGNITION OF THE IMPORTANCE OF MAINTAINING REASONABLE STABILITY IN EQUALIZATION PAYMENTS TO PROVINCES OVER TIME AND, MORE PARTICULARLY, OF PREVENTING SUDDEN, DRASTIC PAYMENT REDUCTIONS OF THE MAGNITUDE NOW FACING MANITOBA.

IF WE DO NOT HAVE AN OPPORTUNITY TO MEET SOONER, I WILL LOOK FORWARD TO WELCOMING YOU TO MANITOBA FORMALLY, AS THE NEW PRIME MINISTER, EARLY NEXT MONTH AND TO JOIN WITH YOU, AT THE SAME TIME, IN WELCOMING OUR ROYAL VISITORS TO OUR PROVINCE.

AGAIN, MY CONGRATULATONS AND BEST WISHES TO YOU, YOUR FAMILY AND YOUR PARTY COLLEAGUES.

YOURS SINCERELY,

HOWARD PAWLEY
PREMIER OF MANITOBA
TELEX: 07-587539

VVVV

THE PREMIER OF MANITOBA
WINNIPEG
R3C 0V8

July 23, 1984

The Honourable Lloyd Axworthy,
Minister of Transport,
107½ Osborne Street South,
Winnipeg, Manitoba
R3L 1Y4

Dear Mr. Axworthy:

Thank you for your letter of July 19, 1984 concerning the potential $72 million reduction in federal equalization payments which Manitoba is facing for the 1985/86 fiscal year.

I appreciate your indication that the federal government regards this matter as a serious concern, and I also appreciate the efforts you have made to raise the subject with your colleague, the Minister of Finance.

I note from your letter that Mr. Lalonde has agreed once again to review the situation and to carry out this review on a priority basis. However, the letter did not indicate the nature and extent of this review, when the review might be completed, or when the province could be informed of the results — and, specifically, of your government's intentions to proceed or not to proceed with the $72 million equalization payment reduction for Manitoba next year.

In other circumstances, an extended review of the current problem could be appropriate, but in this situation, where the basic facts have been well-known and understood for more than a year, I do not believe such a review is necessary, or that the delay it could cause is in any way warranted. As I have indicated to you and to the Prime Minister, the uncertainty resulting from the equalization problem is causing serious difficulties for our Budget planning.

I share your view that it would be desirable to carry on further discussions of this matter in the same spirit of co-operation

that has marked the relationship between our two governments. At the same time, you will understand that we feel very strongly that an extension of the transitional arrangements is clearly warranted, and that an early announcement of the intention of the Government of Canada to agree to that extension would be the best way to demonstrate, concretely, that the co-operation between Canada and Manitoba which has been so important in the last few years is continuing under the new federal government.

I have asked my colleague, the Honourable Vic Schroeder, and senior staff from my office and from the provincial Department of Finance to endeavour to obtain answers to the questions about the federal Finance review which I outlined earlier. I would hope that we can get specific answers to those questions, at least, later this week.

I will be contacting you again after I have received a report from Mr. Schroeder. In the interim, I would appreciate it if you could advise me whether Mr. Turner is expected to be in Winnipeg during the next few weeks and, if so, whether it would be possible for you and I to meet with him at that time to discuss Manitoba's equalization problem and the situation as it then stands. You may recall that I requested such a meeting in my July 3rd letter to Mr. Turner.

Thank you again for your letter.

Yours sincerely,

Howard Pawley

Howard Pawley

Ministre
Transports Canada

Minister
Transport Canada

107½ Osborne Street South
Winnipeg, Manitoba
R3L 1Y4

19 July, 1984

The Honourable Howard Pawley, Q.C.,
The Premier,
Province of Manitoba,
Room 204, Legislative Buildings,
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Premier:

Thank you for your letter of July 9 concerning the issue of a possible shortfall in Manitoba's equalization payment in 1985-86. I also appreciated receiving a copy of your comprehensive letter to the Prime Minister, which I note has been made public.

I want to assure you first of the federal government's very serious interest and concern in this matter and, further, to inform you of what actions I have taken since our last meeting.

I have had several discussions on this issue with my colleague, the Honourable Marc Lalonde, the Minister of Finance. Mr. Lalonde appreciates the urgency of this question. Following a preliminary review of Manitoba's argument, Mr. Lalonde has agreed to a review of the equalization payments issue and the implications of continuing the special transitional arrangement. He has instructed his departmental officials to begin this review on a priority basis and to meet with their provincial counterparts as appropriate.

It is my hope that this review can be undertaken in a spirit of cooperation -- the same kind of spirit that has seen the federal and provincial governments agree on the first and most comprehensive set of economic development agreements in Canada. I am also pleased to note that our respective staff in Winnipeg, have been maintinaing excellent lines of communication in their informal discussions on the equalization issue.

PREMIER'S OFFICE
JUL 20 1984
MANITOBA 45

. . . . 2

Place de Ville
Ottawa
K1A 0N5

The Premier

19 July, 1984

I trust this provides you with an understanding of the federal government's concern for this question. Finally, I look forward to meeting with you again soon on this and other important initiatives.

Sincerely,

Lloyd Axworthy

Lloyd Axworthy

THE PREMIER OF MANITOBA

WINNIPEG
R3C 0V8

July 3rd, 1984

FEDERAL-PROVINCIAL
JUL 9 1984
23,473
RELATIONS

The Right Honourable John Turner, P.C., Q.C., M.P.
Prime Minister of Canada
House of Commons
OTTAWA, Ontario
K1A 0A6

My dear Prime Minister:

I am writing to request your assistance in dealing with an extremely serious problem facing Manitoba - a problem caused by the scheduled expiry of the transitional arrangements under the National Equalization Program.

The federal Department of Finance is now estimating that Manitoba's equalization receipts will drop by $72 million in 1985/86 and by a further $8 million in 1986/87. If these reductions were to take place, our Province would be receiving significantly less equalization support both next year and the year after than in the first year of the new arrangements, 1982/83, despite continuing escalation in our basic equalization entitlements as measured under the new formula. Since equalization payments represent about one-sixth of our overall revenues, the damaging implications of such a result for our budgetary position will, I am sure, be obvious to you.

Our Province has been assured that such major cutbacks in Manitoba's equalization support had not been intended by the federal government when the new formula was legislated in 1982. In fact, the amendments enacted in 1982 included the transitional arrangements sometimes referred to as the "Manitoba clause", to assure the Province some annual growth in its equalization support until the end of 1984/85. Available federal forecasts at the time the three-year transitional provisions were developed suggested that, by 1985/86, basic equalization entitlements under the new formula would exceed the levels provided by transition, thereby obviating the need for additional transitional support.

Unfortunately, that has not proven to be the case. Following is a table summarizing the most recent federal estimates for Manitoba and comparing them to the estimates available in early 1982, when the current formula was introduced.

MANITOBA EQUALIZATION PAYMENTS
($ millions)

	MARCH, 1982 FORECAST			CURRENT FORECAST (JUNE, 1984)			
	Basic	Transitional	Total	Basic	Transitional	Floor	Total
1981/82	392		392	399			399
1982/83	349	82	431	276	163		439
1983/84	401	56	457	290	177		468
1984/85	443	27	470	338	142		480
1985/86	488		488	367		41	408
1986/87	538		538	400			400
1987/88				439			439

The table makes it clear that, in the absence of changes to the equalization formula itself effective for 1985/86, or an extension of the transitional arrangements, our Province faces major, unintended and unwarranted declines in equalization. In fact, the decline now envisaged for 1985/86 -- from $480 million to $408 million -- is close to double the potential drop-off envisaged under the new formula for 1982/83 - a drop-off which gave rise to the initial transitional provisions. As noted earlier, severe budgetary problems would be associated with such a decline. **Moreover, to the best of our knowledge, it would mark the first time in the history of equalization that a province with increasing formula entitlements was subjected to actual reductions in federal equalization support.**

I would hope that you would agree with us that Manitobans must not be called upon to bear the burden of such a precedent. The damage to Manitoba's finances caused by a sudden drop in a major revenue source next year could be severe.

If Manitoba's revenues were seriously curtailed, our total Budget would be affected. That could require the curtailment of important social and economic programs serving the poor and the jobless -- at a time when our overall expenditures are far from being out of line

with those of other provinces, and when our public sector salary levels remain moderate. Alternatively or additionally, given the Province's limited tax base, further across-the-board tax increases could be required, imposed across provincial economic lines with consequences for all taxpayers, not just those more able to pay. Perhaps of even greater concern is the damage which might be inflicted on our provincial economy, an economy which has only recently returned to a state of vibrancy after several years of performance near the bottom of provincial ranks on most major economic indicators. In this regard, I might quote a recent statement by the Hon. Lloyd Axworthy. Referring to federal-provincial cooperation and the fact that Manitoba's unemployment rate is the lowest in Canada, he said:

> "I think this is a prime example of how federal and provincial governments can contribute to economic development and job creation in the province."

Clearly, a $72 million drop in equalization revenue in 1985/86, followed by another drop in 1986/87, would run heavily counter to the positive influence which the joint and cooperative expenditures of the federal and provincial governments are having in turning the Manitoba economy around, creating jobs and providing an encouraging environment for the citizens of our Province.

Our Government does not see the need for transitional arrangements respecting equalization running indefinitely into the future. We have bright prospects related to resource developments, our diversified manufacturing capability, and our agricultural base, in particular. If realized, those prospects could reduce our reliance on equalization over the longer term. However, in the current circumstances, we feel any reduction in our equalization receipts would be counter-productive.

We are therefore asking for an extension of the transitional arrangements to ensure that the objectives of those arrangements can be achieved. We have proposed formulae which would ensure that the difference between any transitional entitlement and the basic entitlement (now 30%) is narrowed and then eliminated automatically over time. We would also like to have a commitment to a thorough review of the equalization program before the five-year term of the existing basic arrangements expires to judge whether it is fair and equitable to the various recipient provinces and whether its primary constitutional objective, "that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation", is being met.

Time is very short for Manitoba. We have received assurances from the Hon. Marc Lalonde that the issue will be re-examined in the Fall. However, our fiscal and economic planning cannot and should not be deferred that long.

We are therefore requesting a commitment from the Government of Canada to the principle of extending the transitional provisions to ensure that Manitoba will not suffer any equalization loss in 1985/86. That, at a minimum, would be consistent with the fact that our entitlements to basic equalization as measured under the new formula are continuing to increase. It would also be consistent in spirit with the special equalization compensation provisions included in the Canada-Nova Scotia Energy Agreement and in the agreement in principle signed recently by the Leader of the Opposition and the Premier of Newfoundland.

I would welcome an opportunity to meet with you in the next few weeks to discuss our concerns about the equalization problem and to review with you other key Manitoba priorities.

I should emphasize that although the equalization problem is of major importance to us, we do not want it to interfere with the cooperative relations we have reestablished with the federal government in the past two and a half years. In fact, we are looking to the goodwill which has been built up during that period, as well as to your strong interest in improving federal-provincial relations and in responding to western concerns, as major reasons for confidence that you and your colleagues will act quickly to resolve the equalization problem now facing Manitobans.

Yours sincerely,

Howard Pawley,
Premier of Manitoba.

Honourable Vic Schroeder
Minister of Finance
Government of Manitoba

EQUALIZATION CONCERNS: NEED FOR EXTENDED TRANSITIONAL ARRANGEMENTS

Notes for a Submission to
Honourable Marc Lalonde
Minister of Finance
Government of Canada

Montreal - December 8, 1983

I. Background — Outline of Concerns

Introduction

The major changes to the Fiscal Arrangements implemented in 1982 are having an ongoing impact on provincial finances. While the revisions to Established Programs Financing Arrangements for health care and post-secondary education affected all provinces in similar proportions, the Equalization changes, including the transitional arrangements, continue to be an extremely important factor for Manitoba. This submission addresses Manitoba's concerns, particularly those related to the transitional arrangements.

The Effects of the New Equalization Formula

In utilizing a five province "representative" standard in place of the former national average standard, the new Equalization Formula lowers the standard for equalization by over 9%.* The effects of the reduced standard on total equalization transfers by Ottawa were ameliorated by the inclusion of additional revenues subject to equalization calculations.

However, because the configuration of tax yields in the five provinces does not correspond directly, source by source, to the national average or to the weighted standard on the different tax bases included in the old formula, the effects of the new formula fall differently on the on the recipient provinces and the cutbacks relative to the old formula also fall unevenly.

Manitoba opposed these cutbacks on the grounds that major economic indicators suggested that Manitoba's relative position among the provinces had deteriorated. This perception, it could be added, is not confined to Manitoba but also reflected in federal analysis. For example, the recently initialled Canada-Manitoba Economic and Regional Development Agreement included the following summary assessment.

> "Although recent statistics have indicated improvement, Manitoba's economic development generally has not kept pace with Canada's, or other provinces, since the late 1960's. Manitoba ranked ninth or tenth in interprovincial comparisons of all major economic performance indicators during the period 1970-80: these indicators include the average annual growth rates in population, employment, personal income, real output and new capital investment."

---

*Source: Federal Department of Finance, Federal-Provincial Relations Division; "Provincial Fiscal Equalization; First Estimate 1983-84"; January 17, 1983.

The Transitional Arrangements

Because the new formula would have resulted in a drop in Manitoba's entitlement in 1982/83, the federal government implemented special transitional arrangements. These arrangements were intended to protect Manitoba against a year-over-year drop in its equalization in moving towards the new formula.

The transitional arrangements were geared to a three-year period in the expectation that by the fourth year, 1985/86, Manitoba's formula entitlement would exceed the transitional floor guarantee. Unfortunately, however, that is not proving to be the case as indicated in Table I which compares federal forecasts in March of 1982, in which context the transitional arrangements were prepared, and the latest available federal forecasts.

Table I **MANITOBA EQUALIZATION PAYMENTS**
($ millions)

	MARCH, 1982			MAY, 1983		
	Formula	TRAP	Total	Formula	TRAP	Total
1981-82	392	-	392	399	-	399
1982-83	349	82	431	318	122	440
1983-84	401	56	457	354	113	467
1984-85	443	27	470	377	104	481
1985-86	488	-	488	415	-	415
1986-87	538	-	538	452	-	452
5-Year Total	2,219	165	2,384	1,916	339	2,255

As can be seen from the table, the spring, 1982 information base suggested that transitional arrangements over a three-year period would be sufficient to protect Manitoba from any year-over-year drop in equalization payments in moving to the new formula. Unfortunately, based on the more recent information, that expectation is not being borne out. Based on the new information, rather than the year-over-year growth of 3.8% in the first post-transition year (1985/86) envisaged when the new formula was imposed, Manitoba now faces a 13.7% drop of some $66 million in its year-over-year entitlement. This is despite major discretionary tax increases in most provinces which, in the normal course of events, should have resulted in basic equalization entitlement increases and a narrowing of the gap between the equalization floor arrangement and Manitoba's entitlement under the formula. Current federal forecasts suggest that Manitoba is the only province expected to experience a year-to-year drop in equalization revenue in 1985/86.

It should be noted that the transitional arrangements recognized the need for some year-to-year growth in provincial revenues and provided growth of about 6% in 1983/84 and 3% in 1984/85. They were considered necessary because Manitoba would have faced a projected $43 million year-over-year loss in 1982/83. Now, contrary to the federal projections at that time, there is a much more significant loss of $66 million expected in 1985/86. In the Province's view, the revised federal forecasts confirm that the need for new arrangements for 1985/86 is at least as crucial for Manitoba's fiscal health as were the original transitional arrangements in 1982.

Manitoba's Share of Equalization

It may also be of interest to examine Manitoba's share of equalization over time, including the effects of the transitional arrangements. Such an examination is useful in allaying possible concerns that the transitional arrangements may be providing Manitoba with an unduly high share of equalization and that they may be affording Manitoba preferential treatment relative to other provinces.

Table II

MANITOBA EQUALIZATION AS % OF NATIONAL TOTALS
($ 000's)

	Manitoba Equalization	Total National Equalization	%
1977/78	238,488	2,573,119	9.27
1978/79	291,694	2,906,729	10.04
1979/80	343,476	3,345,957	10.27
1980/81	368,082	3,727,384	9.88
1981/82	398,831	4,349,742	9.17
1982/83	441,000	4,866,000	9.07
1983/84	468,000	5,212,000	8.98
1984/85	481,000	5,494,000	8.76
1985/86	415,000	5,698,000	7.29
1986/87	452,000	6,203,000	7.29

As Manitoba's relative share of equalization continued to decline even with the transitional arrangements, it would be a contradiction to interpret their effect as increasing Manitoba's fiscal capacity relative to other recipient provinces. Nor can Manitoba be characterized as being protected from effects already felt in other provinces. Manitoba has already absorbed larger declines than other provinces as indicated by its lower share. The transitional arrangements have only temporarily sheltered Manitoba from the even more severe effects of the new equalization arrangements which, because of the tax base configurations in the five-province representative average standard, affect this province more severely than any other.

In 1984/85, equalization entitlements for Manitoba are expected to grow by about 3%. Without new arrangements to replace the current transitional arrangements, Manitoba stands to suffer a year-over-year loss in equalization payments of $66 million in 1985/86. This drop would drastically cut Manitoba's share of equalization in spite of the Province's recent sluggish economic performance. In the Province's view, such a cut would be neither justifiable nor appropriate. Certainly it would impede our efforts to direct resources to improve our economic performance.

II. The Importance of Federal Support to Manitoba

Revenue Forecasts

The importance of equalization and other federal support to the Province's finances is underscored in Manitoba's revenue forecasts for the next two years.

Table III

REVENUE FORECASTS
($ millions)

	Provincial Sources	Equalization	Total Federal Transfers	Total Revenues	Total Federal Revenues as % of Total Revenue
1983-84	1,747	467	989	2,736	36.1
1984-85	1,850	481	1,030	2,880	35.8
% Change	5.9	3.0	4.1	5.3	
1985-86	1,987	415	997	2,984	33.4
% Change	7.4	-13.7	-3.2	3.6	

Revenue prospects for the coming year are a significant cause for concern with overall growth of 5.3% accounted for by growth in federal support of 4.1%, pulling down own source revenue growth of 5.9%. However, much more significant are the forecasts for 1985/86. In that year, the 13.7% drop in equalization receipts associated with the end of the transitional arrangements results in overall federal support declining by 3.2%. As a consequence, in spite of projected growth of 7.4% in own source revenues, overall revenue growth is expected to be less than half as great, at 3.6%, and almost one-third lower than the 5.3% anticipated for next year. Federal transfers would continue to fall as proportion of Manitoba total revenue to 33.4% from 36.1% in 1983/84 and 42.6% in 1979/80.

Need to Provide Reasonably Competitive Taxes

The Government of Manitoba has already introduced several tax measures to increase revenues including a sales tax increase, a personal income surtax, a corporate income tax increase, the Health and Post-Secondary Education Levy, and increased taxation on gasoline, diesel fuel, tabacco and liquor. The significance of these measures is evident in the fact that they now represent about $266 million or approximately 10% of total revenues in 1983/84 and over 15% of own source revenue.

In light of the magnitude of these increases, it is apparent that Manitoba would face severe difficulties in raising taxes further while attempting to remain a reasonably competitive Province in attracting increased economic activity. Increasing taxes further entails a significant risk of dampening economic activity which as noted earlier lagged most provinces over the last fifteen years. Attempting to reduce the deficit through overly vigorous expenditure restraint could impede the delivery of adequate health and education programs as well as appropriate economic development initiatives and ultimately have a similar impact.

Unfortunately those appear to be the only alternatives if action is not taken on the major equalization losses envisaged in federal forecasts for 1985/86. In the Province's view both alternatives would be inconsistent with the fundamental purpose of equalization as ensuring:

> "that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

In our view, the Province's ability to provide reasonably comparable services with reasonably comparable taxes would be placed in serious jeopardy if the federal government proceeds with the forecast equalization reductions in 1985-86. Proceeding with those reductions would reduce revenue growth to significantly less than the inflation forecasts on which the revenue forecasts are based.

III. Conclusions and Recommendations

The inherently arbitrary nature of any equalization formula is recognized by both federal and provincial governments. That, in turn, means that assessments of the suitability of any formula are based in large measure on its results, both those initially anticipated and those finally achieved, in meeting the perceived objectives. From a Manitoba perspective, analysis of the results available to date, major declines in Manitoba's share of equalization, are inconsistent with the shared view of both governments of Manitoba's lagging economic performance in the last decade. For that reason, the Province is of the strong view that the basic formula itself should be re-examined carefully and extensively by officials.

Of more immediate concern is the scheduled expiry of the transitional arrangements at the end of next year. The initial transitional arrangements were intended to ensure that a province with increasing fiscal need did not face a year over year drop in its entitlement but was in fact guaranteed some growth. Available information now suggests that Manitoba faces a $66 million drop in its equalization entitlements in 1985-86 notwithstanding the fact that its formula entitlement continues to increase. On that basis alone, there is a strong case for an extension of the transitional arrangements. And the case is even stronger in light of the Province's revenue prospects. In essence, there is no ability to absorb the impact of such a major withdrawal of federal support.

In Manitoba's view, the best kind of transitional arrangement for 1985/86 and subsequent years would involve a guarantee of equalization payments growing at a rate related to the growth in its basic entitlement under the formula. For example in cases where a province's basic formula equalization entitlement continues to increase, it would be guaranteed total equalization payments growing at one or two percentage points less than the growth rate in its basic entitlement. In cases where its basic entitlement dropped, the negative rate could also be increased by one or two percentae points when applied to the total equalization guarantee. This would ensure a gradual phasing out of the transitional arrangements in line with the federal objective that such arrangements be transitory in nature. It would also assure some sensitivity in equalization entitlements year-by-year to the Province's relative fiscal capacity.

The basic objective of the proposal to extend the transitional arrangements is, of course, ensuring that a province with increasing fiscal need does not face a drop in its equalization support from the federal government. The Manitoba proposal meets this objective and also assures that there would be a phasing-in of the full implications of the new formula. Other options are also available, including for example, a simple extension of the current arrangements.

There is considerable urgency attached to a resolution of the equalization dilemma facing Manitoba. The spectre of major equalization losses commencing 16 months from now is a major factor influencing our ability to maintain policies conducive to a sustained economic recovery. These concerns could be alleviated substantially with a federal commitment to have officials review the problem and prepare options for joint consideration early in the new year.

Honourable Vic Schroeder
Minister of Finance
Government of Manitoba

FEDERAL TRANSFERS TO MANITOBA — NEED FOR REVIEW:

Notes for a Submission to Honourable Marc Lalonde Minister of Finance, Government of Canada

Ottawa, February 4, 1983

The changes to equalization and established programs financing initiated by Ottawa last year are continuing to have a significant adverse impact on provincial finances with the result that the Government of Manitoba is facing increasing difficulty in taking positive action to address the severe economic recession and establishing the base for recovery and renewed growth. Federal transfer changes were also cited by Standard and Poors Corporation as one of the major factors contributing to its decision to issue a "credit watch" on Manitoba.

> "Susceptibility to large revenue swings has increased because federal transfers have declined to 37% of total revenues in 1983 compared with 42% in 1979."

During consultations on the Fiscal Arrangements revisions last year, Manitoba expressed concern with the fact that Manitoba faced excessive losses under the federal proposals, even with the transitional protection provided by Ottawa on equalization until 1984-85. A comparison of the losses facing Manitoba relative to the average provincial loss is set out below.

Losses Under 1982 Fiscal Arrangements Revisions
Manitoba vs All Provinces
($ per family of four)

	Manitoba	All Provinces	Difference
1982-83	124	110	14
1983-84	378	199	179
1984-85	595	257	338
1985-86	788	300	488
1986-87	896	355	541
5-Year Total	**2,786**	**1,227**	**1,559**

As is evident from the table, Manitoba faces considerably more significant losses in each succeeding year of the new arrangements.

While in general, the province was treated in a manner consistent with other provinces on established programs financing, the equalization changes are having an extremely serious and disproportionate effect on Manitoba. Despite transitional adjustment arrangements there is a significant drop-off in Manitoba's share of equalization under the new arrangements from close to 10% over the 1977-78 to 1981-82 period to about 8% under the 1982-83 to 1986-87 formula.

Percentage Shares of Equalization Payments
5-Year Averages

	1977-78/ 1981-82	1982-83/ 1986-87	Percentage Point Change
Newfoundland	10.6	11.2	+0.6
Prince Edward Island	2.5	2.7	+0.2
Nova Scotia	12.8	13.3	+0.5
New Brunswick	10.2	10.6	+0.4
Quebec	52.7	54.1	+1.4
Manitoba	9.8	8.1*	-1.7
Saskatchewan	1.5	0.0*	-1.5
Total	**100.0**	**100.0**	—

**Per cent for Manitoba would be 7.6% without transitional adjustments and 9.1% if the 1977-78 to 1981-82 arrangements had been extended.*

The same result is reflected in the province's projected equalization growth rate under the new arrangements. Manitoba's equalization payments in 1986-87 are expected to be 37.2% higher than in 1981-82 compared with the all-province average increase of 69.8%. Quebec is expected to experience the next lowest growth in equalization of 66.1%.

It is also informative to consider the dollar value of equalization payments to Manitoba under the new arrangements compared with an extension of the 1981-82 arrangements. Again, the comparison shows major losses to Manitoba which increase significantly over time.

Equalization Entitlements for Manitoba
1982-83 — 1986-87
10-Province National Average Standard (1981-82 Formula)
vs
Current 5-Province Average Standard

	Entitlements (Millions)			
	1981-82 Formula 10-Province Average	Current Formula 5-Province Average	Loss Under 5-Province Average	
	$	$	$	%
1982-83	452	431*	-21	4.6
1983-84	535	457*	-78	14.6
1984-85	594	470*	-124	20.9
1985-86	657	488	-169	25.7
1986-87	728	538	-190	26.1
5-Years	**2,966**	**2,384**	**-582**	**19.6**

**Includes transitional adjustments. 5-Year loss in absence of transitional adjustments would be $165 million more or -$747 million.*

While the federal choice of any specific equalization formula is admittedly arbitrary, the significant erosion of direct federal support to Manitoba under the new formula, as recently underscored by Standard and Poors, appears inconsistent with the economic realities facing the province.

Over the five years of the former arrangements, Manitoba's economic performance was well below the national average and on a number of major indicators, including real growth, employment and investment, the provincial performance ranked last among the provinces.

Economic Indicators by Province
1976 to 1981
(% change)

	Real Domestic Product	Employment	Investment
Newfoundland	8.3	19.1	38.8
Prince Edward Island	8.9	14.3	56.7
Nova Scotia	15.1	13.0	86.4
New Brunswick	9.3	15.9	28.7
Quebec	10.3	9.3	43.1
Ontario	8.1	14.8	63.4
Manitoba	7.3	8.5	25.9
Saskatchewan	12.6	14.3	90.1
Alberta	38.3	30.6	145.1
British Columbia	20.6	22.3	125.7
Canada	13.4	15.3	79.9

SOURCE: Statistics Canada and Conference Board of Canada.

As we pointed out last year, reasonable recognition of that poor economic performance which represents a declining share in growth, employment and investment, militated against implementation of an equalization formula which reduces so significantly the Manitoba share of equalization. In essence, the federal reductions further impair the province's ability to exert a positive influence on developments within the province.

The transitional adjustment arrangements are proving to be of some benefit to Manitoba at the present time. However, the very fact that transitional payments were required under the new formula for a province such as Manitoba with the kind of weak economic performance experienced since the mid-seventies calls into question the viability of the new formula in achieving its objectives. In addition, the latest federal estimates suggest that in order to provide Manitoba with the minimal floor protection envisaged for the first three years of the new arrangements, higher-than-expected transitional payments are involved. And the gap between the floor guarantee and the entitlement generated under the new formula appears to be widening rather than narrowing as suggested in federal material last year.

Transitional Assistance and Equalization — Manitoba
($ Millions)

	1982-83	1983-84	1984-85
MARCH, 1982 FORECASTS			
Basic Equalization	349	401	443
Transitional Payment	82	56	27
Total Equalization	431	457	470
JANUARY, 1983 REVISIONS			N/A
Basic Equalization	316	335	
Transitional Payments	113	120	N/A
Total Equalization	429	455	

1981-82 ENTITLEMENT: $390 million

In summary, experience to date with the new equalization formula unfortunately confirms the validity of the concerns and reservations expressed by Manitoba last year. There is an urgent need to review the underlying formula to assure adequate and reasonable entitlements for Manitoba over the longer term. The general economic and financial conditions facing the province confirm the need for immediate measures to increase the amount of equalization accruing to Manitoba. One way in which this could be achieved might be through improvements in the transitional payments formula which would "buy" time pending the completion of a general review of equalization. In addition, federal consideration of other financial arrangements affecting the province should concentrate on alleviating the impact of the reductions in federal support already being experienced rather than imposing further reductions.

MANITOBA

MINISTER OF FINANCE

April 15, 1982

The Honourable Allan J. MacEachen
Minister of Finance
Government of Canada
Parliament Buildings
OTTAWA, Ontario
K1A 0A6

Dear Mr. MacEachen:

As you might expect, I was extremely disappointed by your indication in the House of Commons on Monday, April 5, that the Government of Canada was not prepared to modify Bill C-97 to provide additional transitional equalization assistance to Manitoba.

Following our meeting in Ottawa on Wednesday, March 24, and our brief telephone conversation on Tuesday, March 30, I had been very optimistic that at least some significant adjustments would be made to the transitional arrangements. I continue to hope that this will be possible within the new legislation and that we may have an opportunity to discuss various options in the near future.

Perhaps it would be helpful to our future consultations on this matter if I were to review the events of the past few days from my own perspective in order that you may better understand the basis for my initial optimism and then for my strong disappointment at Monday's announcement.

Wednesday, March 24 - Although we had been unable to meet to discuss Manitoba's concerns when you were in Winnipeg the previous weekend, you very courteously agreed to meet with me in Ottawa on Wednesday morning, March 24. At that meeting, which was also attended by J.H. Lynn of your Department and J.R. Eldridge of my staff, I outlined for you our government's concerns about the

impact of the new five-province average formula on our province's equalization entitlements over the next five years relative to those of other recipient provinces. I noted, for example, that forecasts produced by your Department showed Manitoba's entitlements growing at barely half the average for all recipient provinces between 1981/82 and 1986/87, or 37.2% for Manitoba compared to about 70% for the average. In response, you indicated that you would have preferred to see a somewhat different outcome, and undertook to review options for increasing the transitional assistance to Manitoba beyond the amounts provided for under the legislation.

Among the points we discussed were various alternatives for improving the transitional adjustments, ranging from modifying the base calculation to extending the phase-out period. I emphasized, however, that adjustments such as those, while important and helpful, would still leave our province with a large shortfall compared to the entitlement we would receive if we were to be guaranteed the average growth rate in payments projected for the next five years, or even the second lowest rate.

At the conclusion of our meeting, I felt that you had given us a full and fair hearing and I was encouraged by your indication that you would review the implications of various options, including an adjustment in the range of $60 million.
My optimism about the result of that meeting was heightened by a report which appeared in the Monday, March 29 edition of The Winnipeg Free Press quoting "a federal official present at the meeting" as having said "It was a positive meeting. The Minister didn't close the door and will see what the implications of Manitoba's suggestions are." The report went on to note "The official said the Department is currently engaged in preparing a series of alternatives for Mr. MacEachen to examine. 'Our Minister made it clear that there is no big money around.'" The report also noted that your colleague, the Minister of Employment and Immigration "has been involved in advancing Manitoba's case in the past and, according to his office, is determined to put Manitoba's position as forcefully as possible both to Mr. MacEachen and to the federal Cabinet."

Monday, March 29 - Because I had not heard from you before the weekend, and because I was aware that debate on Bill C-97 was progressing quickly, I attempted to contact you by phone on

Monday, March 29 but was unable to do so. I understand you also attempted to contact me on Monday evening.

Late Monday afternoon, however, my office did receive a call from Mr. Axworthy's Ottawa office. During the conversation, a member of my staff was given to understand that additional equalization assistance of approximately $80 million appeared likely for Manitoba.

Tuesday, March 30 - By around noon the following day, when I still had not heard from you, Mr. Eldridge of my staff spoke with both Mr. Lynn and Mr. Clark of your Department to seek clarification of the $80 million amount about which we had been told the previous day. Both federal officials indicated that they were not familiar with any particular amounts' having been authorized and stated that they felt it was important that you and I speak personally about the options.

Later that day, my office received a call from Mr. Axworthy's office indicating that the information provided to us the previous day had been premature.

Then, that evening, you and I spoke briefly on the phone, at which time you mentioned a figure of some $40 million which we might receive under certain circumstances. I responded that such a total would not be sufficient to meet our concerns. Unfortunately, our discussion was cut short because you had a meeting to attend. That, of course, was the last conversation we had prior to your announcement in the House on Monday, April 5.

Wednesday, March 31 - As I had indicated to you on the phone, I decided to go to Ottawa on Wednesday and Thursday to advise Manitoba MPs personally of our concerns and to present our views in a formal way to the Standing Committee on Finance, Trade and Economic Affairs.

Before I met with MPs on Wednesday morning, I received a phone call from your Deputy, who, on your behalf, apologized for the fact that our phone call the previous evening had been cut short. While I did not meet with Dr. Stewart, I had a member of my staff call his office to say that I was available if he felt such a meeting would be desirable in your absence.

That day, I was able to meet separately with Manitoba MPs from all three parties. All appeared to share our concern about the need for improved transitional arrangements for Manitoba and I was particularly gratified that both Mr. Axworthy and Mr. Bockstael undertook to attempt to contact you on Wednesday evening to advise you of our concerns once again. During my conversation with Mr. Axworthy, I believe he mentioned the possibility of an adjustment in the $45 to $55 million range.

We also met on Wednesday evening with your former Parliamentary Secretary, Mr. John Evans, who also appeared sympathetic to our position.

Thursday, April 1 - We did not hear from either Mr. Axworthy or Mr. Bockstael as to the outcome of their effort to contact you, and I appeared before the Standing Committee in late morning. At that time, I made a brief statement concentrating on essentially the same points I had made during our meeting on March 24. A number of members of your staff were in attendance and received copies of our submission, as did your Parliamentary Secretary.

During the Committee hearings, I was very pleased to hear strong expressions of support for Manitoba's position from Mr. Epp and Mr. Blaikie, and I understand they made equally supportive statements in the House that afternoon.

As you know, both the member for Provencher and the member for Winnipeg Birds Hill later presented an amendment intended to provide Manitoba with growth in entitlements equivalent to the province with the second lowest percentage increase over the next five years. One of the reasons for their putting forward that amendment, of course, was the fact that there had been no contact with you and your colleagues that day.

Friday, April 2 - At the conclusion of debate on Thursday, we became quite concerned that the Government had not moved any amendments to deal with the Manitoba situation. I attempted to reach you around mid-day Friday to obtain clarification, but again was unsuccessful.

Monday, April 5 - With Third Reading of the Bill scheduled for Monday, I attempted once again to reach you, in the hope that you would advise me, as a courtesy, of your current thinking on the Manitoba situation prior to announcing it in the House.

I did not receive a call from you, however, and only learned from my staff late that afternoon that you had commented at length about our position in the House that afternoon.

I have not yet had an opportunity to review a transcript of your comments on Monday, but as I understand it, you expressed the view that the current transitional arrangements appeared adequate, and that a substantially larger adjustment would be unwarranted and would leave our province, according to some measurements, better off than certain others. I believe as well that there was some implication that Manitoba had been receiving too much equalization -- or had been "over-equalized" -- under the 1977/78-1981/82 arrangements.

I understand you also expressed concern that the kind of amendment moved by Mr. Epp and Mr. Blaikie would have been quite arbitrary. There is no doubt that such a formula would be arbitrary, but the same seems necessarily true of any transitional adjustment, and of many other features of the equalization formula itself, including the GNP cap which is now a permanent part of the new legislation.

What is most disturbing to me, however, it the fact that none of the arguments presented in opposition to our case seems to address the basic fact which you, yourself indicated you found to be of concern during our meeting on March 24 -- the fact that our equalization entitlement is projected to grow by barely half the rate of the average for all equalization recipients over the next five years. Granted, the hypothetical underlying growth rate, before transitional adjustments, is comparable to that of other provinces, but that seems to be an academic argument at best since, if we were to be paid on the basis of the new formula, unadjusted, it would take at least a year for our annual entitlements just to return to their 1981/82 level. Even with transitional adjustments, we will experience a significant drop-off in our share of total equalization payments over the period and Manitoba will replace Quebec as the province with the smallest per capita entitlement.

If the federal government is satisfied with this outcome, then it must follow that it believes we in Manitoba were overequalized under the former arrangements. I find this difficult to accept, given our economic circumstances over the past five years, and I find it equally difficult to accept given most forecasts of our economic prospects for the medium term future. Obviously, we do not wish to receive artificial levels of support if our economy improves significantly, but neither do we want to receive unfairly low payments because of a formula which, for a variety of technical reasons, substantially reduces our share of total payments from

one year to the next even though our economy has not improved. I continue to believe that Manitoba is the unintended victim of the decision to shift from a broad ten-province average standard to a narrow five-province standard. While the five-province average does, in fact, produce results that the Atlantic provinces appear to regard as satisfactory, it is, in our view, an undeniable fact that it has relatively unfavourable effects for us and that these cannot be dismissed simply as the unfortunate results of the way the formula works.

Once again, I appreciate the courtesy you extended to me and to our Government in meeting with me on March 24. I continue to hope that you will review our concerns and consider options for responding to them within the new legislation. At least some improvements to the transitional adjustments would appear to be possible through the regulations.

When time permits in the next few days, I would appreciate it if you would give me a further call on this subject.

Yours sincerely

original signed by

Vic Schroeder
Minister of Finance

Honourable Victor Schroeder
Minister of Finance
Government of Manitoba

Notes for a Submission to the Standing Committee on Finance, Trade and Economic Affairs

Ottawa: April 1, 1982

Mr. Chairman, Members of the Committee:

I very much appreciate your courtesy in permitting me to appear before you at this time.

My purpose in coming to Ottawa is not to talk at length about our government's general concerns about Bill C-97. You have already heard a great deal about E.P.F., for example, from other witnesses. In addition, Manitoba has put forward a number of detailed position statements on the fiscal arrangements, both on an individual basis, and in conjunction with other provinces.

Instead, I hope to acquaint your Committee, as best I can, with our special concerns about Bill C-97 and particularly the negative effects for Manitoba of the five-province average standard proposed for the new equalization formula.

Our government has emphasized on a number of occasions that we believe the five-province standard — the so-called "representative average standard" — is inconsistent with the equalization principle which is soon to become a permanent part of the Canadian Constitution. The constitutional resolution states that:

> "Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

For Manitoba, at least, the five-province standard formula will represent a move away from this objective, rather than closer to it. Even with the addition of the transitional adjustments provided for in the legislation — adjustments which we have welcomed — we estimate that equalization payments to our province over the next five years will fall close to $600 million short of the levels that would have applied under the previous arrangements based on the full ten-province national average standard.

EQUALIZATION ENTITLEMENTS FOR MANITOBA
1982-83 — 1986-87
Current 10-Province National Average Standard
vs
Proposed 5-Province Average Standard

	Entitlements ($ Millions)		
	Current Formula 10-Province Average	Proposed Formula 5-Province Average	Loss Under 5-Province Average
1982-83	452	431*	-21
1983-84	535	457*	-78
1984-85	594	470*	-124
1985-86	657	488	-169
1986-87	728	538	-190
5-Years	2,966	2,384	-582

* *Includes transitional adjustments. 5-Year loss in absence of transitional adjustments would be $165 million more or -$747 million.*

The primary technical reason for this shortfall is the different treatment of resource revenues under the new formula, but my purpose here is not to deal so much with the technical reasons as with the "bottom line" result.

Over the last five years, the Manitoba economy has performed well below the national average, and a number of indicators, such as real growth, job creation and investment show our performance to have been the worst of any province.

ECONOMIC INDICATORS BY PROVINCE
1976 TO 1981

	Real Domestic Product	Employment (Percentage Change)	Investment
Newfoundland	10.5	19.1	38.8
Prince Edward Island	9.9	14.3	56.7
Nova Scotia	13.0	13.0	86.4
New Brunswick	7.7	15.9	28.7
Quebec	11.4	9.3	43.1
Ontario	8.6	14.8	63.4
Manitoba	**4.3**	**8.5**	**25.9**
Saskatchewan	10.0	14.3	90.1
Alberta	36.6	30.6	145.1
British Columbia	22.8	22.3	125.7
Canada	13.7	15.3	79.9

Source: Statistics Canada and Conference Board of Canada.

To a significant degree, those figures help explain why we experienced comparatively rapid growth in equalization entitlements over the last five years.

However, the new equalization formula would, in effect, ignore this deterioration in our economic position and, even with the currently-proposed transitional adjustments, result in a significant drop-off in our share of total equalization payments. According to our calculations, we would experience nearly a 2 percentage point drop in our share of total payments on average over the next five years compared to the last five — from close to 10% to around 8%.

PERCENTAGE SHARES OF EQUALIZATION PAYMENTS
5-Year Averages

	1977-78— 1981-82	1982-83— 1986-87	Percentage Point Change
Newfoundland	10.6	11.2	+0.6
Prince Edward Island	2.5	2.7	+0.2
Nova Scotia	12.8	13.3	+0.5
New Brunswick	10.2	10.6	+0.4
Quebec	52.7	54.1	+1.4
Manitoba	9.8	8.1*	-1.7
Saskatchewan	1.5	0.0	-1.5
Total	100.0	100.0	—

* *Percent for Manitoba would be 7.6% without transitional adjustments and 9.1% if current (1977-78 — 1981-82) arrangements were extended.*

Every other equalization recipient province would gain except Saskatchewan, which would cease to have any entitlement whatsoever under the new formula.

Another way of looking at the differences in the effects of the new formula on the various provinces is to consider percentage growth rates over the next five years.

Federal estimates indicate that between 1981-82 and 1986-87, there will be an average increase in equalization entitlements for all six recipient provinces of close to 70%. However, for the Atlantic Provinces, the growth rates will all be in excess of 80%, and for Quebec, the increase will be around 66%. For Manitoba, however, the percentage will be barely half the national average — around 37.2%.

PROJECTED EQUALIZATION GROWTH RATES — BY PROVINCE
NEW ARRANGEMENTS
1981-82 — 1986-87

	% Increase
Newfoundland	85.4
Prince Edward Island	83.5
Nova Scotia	85.8
New Brunswick	81.9
Quebec	66.1
Manitoba	37.2
Average	69.8

This uneven impact is particularly troublesome for our province because it affects us at a time when we are experiencing extremely serious budgetary pressures. We inherited a record deficit from our predecessors which is now estimated at around $265 million for 1981-82. And, that deficit is based on an expenditure total which, in our view, was not adequate to sustain essential public services at appropriate standards.

Now, in part because of the cutbacks which would result from Bill C-97, we face a substantially larger potential deficit for the year ahead.

However, we have delayed final decisions on our Budget for the coming year because we continue to hope that some further adjustments will be made in the new fiscal arrangements to take Manitoba's particular situation into account.

I should emphasize, again, that we recognize that the Government of Canada has made an effort to reduce the negative impact of the new equalization formula on Manitoba through the transitional provisions now in the Bill. Quite simply, though, we do not believe those arrangements go far enough toward correcting for what we regard as an unfair — and, we believe, unintended — result.

Our calculations show that if our equalization payments were to grow at even the average for all recipient provinces over the next five years, payments to Manitoba would be some $371 million higher than presently forecast. And, if our payments were to grow at only the second lowest rate, payments to Manitoba would be some $292 million more than current forecasts.

EQUALIZATION — MANITOBA
PAYMENTS WITH ALTERNATIVE GROWTH RATES
($ Millions)

	5-Province Average Current Forecast*	Payments If Manitoba Received 2nd Lowest Per Cent Increase			Payments If Manitoba Received Average Growth		
		%	Total	Gain	%	Total	Gain
1981-82	392						
1982-83	431	10.7	434	3	13.6	445	14
1983-84	457	10.7	480	23	11.3	495	38
1984-85	470	10.7	531	61	10.5	547	77
1985-86	488	10.3	586	98	10.3	603	115
1986-87	538	10.1	645	107	10.3	665	127
				292			371

* *These forecasts represent a $582 million shortfall from the current formula.*

In our view, those figures speak for themselves . . . and underline the degree to which our province would be affected adversely and inequitably under the new arrangements.

At this stage, it is probably inappropriate to argue for an entirely new formula, although I believe it is quite possible that, given adequate time, the federal government and the provinces could have developed a set of proposals which would not have had the results I have described for Manitoba. Of course, our preference would have been to extend the current arrangements until such a formula could be found. We joined with the other provinces in urging that kind of solution and then, at the First Ministers' Conference, in proposing a compromise alternative — extension of the current arrangements with a 12% "cap". While we have indicated that the five-province average standard appears to us to be superior to the single province Ontario standard which was proposed in the November 12th Budget, we have emphasized repeatedly that we do not believe there has been sufficient time for an adequate analysis of the implications of these or other alternatives.

Now, however, it appears that the most realistic solution from our point of view would be a revised set of transitional adjustment arrangements for Manitoba — a set of arrangements which would at least ensure that our province's equalization entitlement over the next five years would grow at a rate which is no worse than that of the province with the second-lowest growth rate.

That implies a payment increment in the range of some $290-$300 million for the period — an adjustment which I believe is fully justifiable and reasonable in light of the circumstances I have described.

I would hope that the Members of this Committee would see fit to consider recommending such a change.

Thank you very much for your attention. I will be pleased to try to answer any questions you may have.

HOUSE OF COMMONS DEBATES

Extracts from Hansard

on Federal Transfers to Provinces

23 March--1 April, 1982

I would like to point out that the income tax collection system is very important to our Canadian taxpayers and that our western provinces have been strong supporters of that arrangement. However, I recognize that Alberta saw fit to undertake to administer its own corporate income tax this year. But we sincerely hope that they will continue to harmonize their corporate income tax system in conjunction with the federal system and that of other provinces.

In this connection, I note that in Bill C-97 the personal income tax revenue guarantee provision, which is basically an element of the income tax agreement system, will be extended for another five years.

This provision reflects the commitment of the federal government to the principle underlined in the income tax collection agreements and its resolution to continue and strengthen these arrangements.

Another part of this bill, which is of special importance to the west, authorizes interim payments to three provinces to cover their share of the oil export charge relating to the period between November 1, 1981 and January 31 of this year. Saskatchewan will receive $273 million; Alberta will receive $174.5 million and Manitoba will receive $1.2 million.

The negotiations which preceeded the introduction of this legislation were not easy. They never are. Provincial governments are always seeking to obtain as much funding as possible from the federal treasury, and they cannot be faulted for this. But given the over-all need for restraint in federal expenditures it was important that restraint be applied in all spending areas, and the area of transfers to provinces could not be excluded. As the Minister of Finance (Mr. MacEachen) said in his budget speech, the aim was not to cut back these transfers but to moderate their rate of growth. This bill achieves that goal while still providing increased payments to all programs.

• (2040)

I would like to illustrate that point. When we add up the estimated impact on provincial revenues of the proposals in this bill along with the estimated increase in provincial tax revenues that will be brought about by the tax changes in the budget, we get a clear picture of how much provinces will benefit. These increased benefits are in terms of cash transfers and the growing yield of the income tax points that were transferred to the provinces in 1977.

For the coming fiscal year, total benefits to the provinces from this package will show an average increase of 11.5 per cent over the year ending on March 31, 1982. Over the next five years, the average annual gain will be 11.8 per cent. Projections indicate that the Government of Canada can expect to provide more than $105 billion to the provinces in the next five years.

Mr. Wilson: Less what?

Mr. Bockstael: While the arrangements which are about to expire provided the provinces with over $61 billion in the previous five years, the difference represents an increase of an estimated $44 billion, that is, an increase of about 75 per cent in a five year program. No one can logically refer to such an increase as a cutback.

[Translation]

Mr. Speaker, I would like to point out the benefits of these financial arrangements for the province of Manitoba, as follows: Federal transfers to the province of Manitoba for health and post-secondary education will increase by $44 billion over the year ending on March 31. The new total for 1982-83 will therefore be $464 million, which represents a total of about $2.9 billion during the next five years. Manitoba is still eligible to equalization payments, and in 1982-83, these will amount to $431 million for our province. According to our figures, these transfers will represent $2.4 billion over five years. Under a transitional arrangement, Manitoba will receive about $165 million during the next three years. Manitoba will also obtain its share of the oil export charge; this share will amount to $1.2 million. The fiscal arrangements contain other guarantees for Manitoba. The measures contained in Bill C-97 provide for an average increase of 11.8 per cent a year for the provinces for the five year term of the agreement.

The proposals of the federal government therefore provide nearly $5.5 billion to Manitoba over five years. There is no reason to believe that the federal government is trying to reduce its contribution to health and post-secondary education programs and to established programs financing when there are increases in every area.

[English]

Hon. Jake Epp (Provencher): Mr. Speaker , in this debate on Bill C-97 I intend to concentrate today not necessarily on numbers—although I will mention some of them, that is those which pertain to this bill—but, rather, on what I believe is the spirit of federalism which is needed if the numbers which are before us in this bill are to be effective in terms of the delivery of the system.

I found it somewhat interesting that my good friend, the hon. member for St. Boniface (Mr. Bockstael), was willing to be used merely to bring forward numbers in the manner he did, because I think he, as other hon. members have done, recognizes that the numbers used by the Minister of Finance (Mr. MacEachen) have been brought into some very serious question as equalization has been debated, not in this place but in federal-provincial conferences, over these last few weeks.

When one takes a look at federal-provincial relations, certain Canadian characteristics come to mind, and I think it is important that we remind ourselves of some of Canada's characteristics. One which comes to mind very quickly is our vast space. Members of the House might well ask what that has to do with equalization or fiscal payments. It is the very fact of the geographical size of the country—and therefore the diversity which results from that size—which requires us to be very careful when we look at financial formulas to see that they in fact serve that geographical diversity. Obviously there

will be different conditions and different financial impacts, for example, in an Atlantic province such as New Brunswick, as opposed to a populous province, such as Ontario, or a province which has a very strong resource base, such as Alberta. I believe the vastness of Canada is an important and direct consideration in determining whether a financial formula is adequate and seen to be fair.

Second—and I have already touched on it—I would like to discuss the diversity of Canada. No matter what we think of the regions from which we come, the fact remains that while we say our diversity is a Canadian strength, that diversity also results in some areas of the country not being able to produce the same amount of revenues as other areas. Consequently, since the early 1860s the concept of a federal state to respond to both this plurality and this vastness was a concept which the Fathers of Confederation saw as necessary and, in the Canadian context and in the context of what we are debating in the House tonight, I think it is still necessary.

Let me explain. People might say that a democratic system is cumbersome. There is sometimes interminable debate in this House, in provincial legislatures and in committees, but the fact remains that in a country as diverse as Canada dialogue must be open and have a purpose, and that purpose is to create a meeting of minds. In the face of our diversity we should be able to meet and come to agreement through negotiations, and such agreement should serve us all. Dialogue also means we must have a federal system, and it is incumbent upon us in the House and in the provincial legislatures and governments to make federalism work.

What we are dealing with today is not the idea of federalism, but, rather, the fiscal arrangement which makes federalism work. It is one element of federalism. I want to say in the early part of my remarks that I believe federalism works. If we have seen federalism fail, it has not failed because of the system. Granted, the system is not perfect, but federalism has not failed because of the system but because of an unwillingness to make it work. I do not know how many hon. members of the House recognize that in a given calendar year a province could be involved in as many as 360 different federal-provincial negotiations. They could range all the way from a minor arrangement in a narrow area of agriculture to a major reworking, after a five year period, of the financial arrangements between federal and provincial governments. If that number of meetings takes place, obviously it is understood that federalism works and that those meetings lead to some success.

● (2030)

The hon. member for Kingston and the Islands (Miss MacDonald) has been involved in this debate since 1977 when the matter first came before the House. She pointed out that there was a number of positive parts to the bill. We have become familiar with positive elements in terms of federal-provincial arrangements, such as medicare, hospitalization, funding of post-secondary education and the principle of equalization. I do not think any hon. member of the House, no matter of what political affiliation or partisanship, would disagree that those are elements of the federal system we want to preserve and would like to see strengthened. The question is not whether the federal government should receive a larger share or a larger placard because of its involvement in those areas, but how we can improve the ability to deliver those services to Canadians. This should be the only question facing us today.

What conditions are facing us tonight in an attempt to deliver such services? I have already mentioned the imperative of consultation. We can have discussion, but we must question whether it is dialogue. Often there are discussions at federal-provincial conferences, but frequently we do not have dialogue where there is a meeting of minds. In this respect, negotiations started back as far as December 1980. The Minister of Finance said in the House today that he had consulted with the provinces for a long period of time and finally had to make a decision. I do not think the length of time is that meritorious. What is important is whether the Minister of Finance actually entered those discussions with the distinct purpose, not to win necessarily for the federal government, but to win for Canadians. That is the question I ask today.

If we return to the agreements of 1977 and the negotiations which took place in 1976 and 1977, we realize that there was co-operation, agreement, consensus, give and take. An agreement was reached because the people sitting at the table knew that the best thing which could happen for Canadians would be agreement. I say to the minister that I do not believe the same spirit was in the discussions which led to Bill C-97. Today we have unilateral action.

Often people say that federal-provincial relations are not of deep concern to average Canadians, but what has impressed me as I have travelled around the country is that the statement which concerns Canadians is the one of the Prime Minister (Mr. Trudeau) that co-operative federalism is dead. Everywhere I travel Canadians are concerned about the statement because they fear that the federal government now feels that its purposes are better served by confirmation than by consultation and agreement. Possibly some of my colleagues would disagree with me when I say that the Prime Minister is at his political best when he is in a fight or taking on someone. I suggest that equalization, post-secondary funding, medicare and hospitalization are too important to be brought into the arena of confrontation, as I believe the Prime Minister has done. If that is the case, then we reject the spirit of federalism which must work and has worked in the past. Equally important, we renege on past commitments regarding fiscal transfers. People have plans and programs regarding past commitments and they believe there must be some continuity in the programs.

There is a second point which must be made as we look at the bill tonight, that is the question of block funding. When block funding came into being, members of the New Democratic Party were some of the most open opponents to it. From their perspective they argued that at least it would enable the provinces to divert some moneys, which were designated for hospitalization, medicare or post-secondary funding, to other provincial programs. They made that point and brought to the

attention of the public that if that reality did not at least exist, the possibility of it happening was there. The task force chaired by the hon. member for Gloucester (Mr. Breau) looked at that question. It reported back to the House that there was no evidence that funds designated for post-secondary education, hospitalization or medicare were shifted to other programs.

There is one point which was made by people who were opposed to block funding which remains valid, that is that the programs are so important to Canadians that they do not want any cloud surrounding fiscal transfers which might give cause for apprehension that the programs might be under attack.

The third point which confronts us when we look at Bill C-97 is the entire matter of figures. Whose figures does one believe? The hon. member for St. Boniface referred to some figures tonight. I have heard them before; those are the figures of the government. I hope I do not have the reputation of being the most cynical member of the House, but the Minister of Finance has had some difficulty with figures since November 12. I wonder whether we should believe him tonight any more than we have been able to believe him since November 12 regarding the figures which the department has pumped out. One underlying factor which remains about the figures is that Canadians have a deep, deep suspicion that the figures being used are not necessarily the correct or complete ones. At this moment there are provincial governments that are reworking the figures because of changes made in the Department of Finance. Let us be careful about the figures. The minister cannot have it both ways. On the one hand he cannot say that he is increasing payments when on the other hand he says that everyone must share in restraint. I do not know how one could square those two points of view, but the minister is trying, and I will leave it at that.

The fourth condition which confronts us when we look at Bill C-97 is the desire of the Liberal government to be more visible. In my more candid moments I would suggest that it would be best for the Liberal government if it reduced its visibility. Speaking seriously, Liberal members say they are not getting sufficient visibility for the federal dollars that are spent. That is why, even before the footings were in the ground a sign was put up with a DREE grant months before to show that a plant was going to be constructed and DREE had been involved. While I can appreciate the federal government wanting visibility, and I have no difficulty with that even though I think it is somewhat questionable, whether we should concentrate our efforts on that kind of a process, I must ask the question: what is the commitment of Canadians to their country? We must give them a certain cause to believe that the federal government does touch people's lives daily, not only in a negative way but also in a positive way. So often the federal government touches people's lives in a negative way through regulations, taxation and so forth. But when you ask Canadians what is the highest visibility of the federal government in your life, generally they answer, the Post Office, although that has not been too positive to date either. But when you put a question to them regarding the federal government's visibility in the area of post-secondary education and hospitalization, that generally engenders a positive response. If that is the case, and the federal government wants a higher positive visibility, should it then not be doubly careful in its approach to fiscal transfers and financial arrangements, and approach the question with as open a mind as possible so as not to further erode Canadian's identification with positive federal programs?

● (2100)

I do not want to reflect tonight on what is happening, for instance, in western Canada and the alienation in western Canada from the federal government because this bill is not the umbrella under which I should do it, but I do want to point out something to the federal government. I suggest that it be very careful when looking at federal-provincial relations. The federal government should use the camaraderie, the goodwill and the personal contacts that have been developed in order to build a federal presence and to make it a reality, rather than making the federal presence, to those who say the country has nothing to offer them, a reason for them to want to leave. That is my responsibility as a federal member, but it is doubly so the responsibility of members opposite.

Another point surrounding Bill C-97 is the whole question of national standards. As I understand federal-provincial arrangements in the area of medical and hospitalization especially, the purpose was to give the have not provinces, those with less revenue, the ability to provide a certain standard of hospitalization and medicare.

I have a question for the federal government. Has the federal government calculated, through the efforts of the Minister of National Health and Welfare (Miss Begin), whether when these arrangements come into being the have not provinces will be able to maintain the standards? Is the federal government convinced that those standards can be maintained by, for example, the province of New Brunswick? Are members opposite convinced that that can be done? Have they looked at that question seriously?

Just today the province of Manitoba is in a difficult position because doctors are closing their offices for a day or two for study sessions. What about this question of extra billing? The question of extra billing possibly does not hurt any member in the House, but does it hurt our senior citizens? It is not necessarily the financial aspect as much as the fear that hurts. As people advance in age, they fear a lack of security. Fear so often becomes a part of their lives. There is one area where that security has been much better rooted in Canada than in the United States. When an elderly person needs medical care, the resources available to him or her should not be removed for lack of funds nor should the person be in debt for the rest of their days. That is why I ask the Minister of National Health and Welfare tonight whether she has studied these figures to the point where she can say unequivocally that our national standards will be maintained, not in the have province but in the have not provinces?

Then we have this whole question of equalization which surrounds this bill. At the beginning of my comments I said I

was not going to get involved in the various numbers. Other have done that and others will continue to do that. Equalization is a uniquely Canadian development. It is part of our federal system. It is an outgrowth of what I mentioned earlier about our space, our pluralistic society and our diversity.

I believe every member of this House agreed to putting the principle of equalization into our Constitution, and that that principle should have constitutional form. But even before the Constitution is home we are debating today in very practical terms whether equalization is as valid as it was made out to be during the constitutional discussions. In this regard I refer members to the committee discussions. I find that not only disturbing but ironic.

I want to spend some time on how this proposal will affect the have not provinces. In the House yesterday the minister indicated that he had support for Bill C-97 from the have not provinces. I believe he feels that he has received support from the provinces of Nova Scotia, New Brunswick, Newfoundland and Prince Edward Island. I will not address that matter but will leave it to members who come from those provinces to do so. However, I want to address that question from a Manitoba context.

Perhaps you will be surprised, Mr. Speaker, that I might be very much in agreement with the hon. member for Winnipeg-Birds Hill (Mr. Blaikie) on this topic. I have not been in agreement with him very often in the House, but if I am in agreement, I think I should be forthright enough to say that I am. The reason is that I believe you will find members of the New Democratic Party, both federally and provincially—and I feel a little strange to speak for them in this context—or members of the Progressive Conservative Party, provincially as well as federally, agreeing as we look at the figures, that the province of Manitoba will be very hard hit by the provisions of Bill C-97. That conclusion has been reached not only by Manitobans. If hon. members speak to other people who have studied the bill, they will hear the same point conceded. I am addressing this subject today not in any partisan way, but I am questioning whether any government in Manitoba has the ability to provide the service for Manitobans. My responsibility as a member from Manitoba is to make sure that question can be answered in the affirmative. That is why I asked the question today of the Minister of National Health and Welfare. I asked whether or not the people of Manitoba, through their government, will in fact be able to maintain national standards.

• (2110)

Mr. Blaikie: She has not been in the House since the debate started; how can she answer the question?

Mr. Epp: Keeping in mind equalization and national standards, how can that province maintain those services? Let us look at some of the statistics. This is public knowledge; it was produced by the Manitoba government and the Department of Finance and presented at the last first ministers' conference on the economy here in Ottawa. The cutbacks to the have not provinces will in no way have an equal impact. For example, the have not provinces will bear 71.6 per cent of the cutbacks, yet they only have 43.5 per cent of the population and only 36.6 per cent of national output. Where is the principle of equalization? In contrast, for example, the have provinces, such as British Columbia, Alberta and Ontario, will bear 28.4 per cent of the cutbacks with 56.5 per cent of the population and 63.4 per cent of national output. So the ability to pay for those services obviously now, with the weighting of the formula, falls very much in favour of the have provinces.

The Minister of Finance says we must have restraint. He says you have to have restraint in post-secondary education, medicare and hospitalization. It is, however, interesting to note, Mr. Speaker, that allowing for inflation, the budgeted increase in federal expenditures is 13.5 per cent. However, if you look at these expenditures in all areas other than provincial transfers, you find that the government's budget increases by 16.1. So I ask the government: What are your priorities? Obviously they are more heavily weighted in areas other than post-secondary education, medicare and hospitalization.

Do statistics mean anything, Mr. Speaker, if one does not relate their effect in some way to the average family? Well, the federal cutbacks will affect a family of four in the following way. In the year 1982-83 the total impact per family of four in Manitoba will be a reduction of $465. That is the highest of any province. The average is $162. In 1983-84 the net impact on a family of four in Manitoba will be $640. The national average will be $246. In 1984-85 it will rise to $745, and the national average of $370. In 1985-86 it will rise to $835, with a national average of $350. In 1986-87 it will rise to $949, with a national average of $410. I did not go into the other provinces, Mr. Speaker, because I did not want to bore the House with a lot of statistics. I am pointing out, however, that there is no question that the average family in Manitoba will have to pay a disproportionate amount of provincial and municipal taxes if it wants to meet national standards.

We in Manitoba have a choice, Mr. Speaker. The choice we can make through our provincial government is to reduce medical costs. But what happens to our standards? We can get into extra billing. But what happens to the senior citizen? What happens to those who do not have the ability to pay? More fundamentally, why should the Manitoba resident be faced with the prospect of extra billing or lower standards when residents of other provinces are not faced with the same cuts? You might say, Mr. Speaker, that I am being too provincial or parochial. I hope I have not been, because that was not my intention. The reason I raise the Manitoba figures is not only that I come from that province, but that almost everyone who has looked at the figures agrees that Manitoba will be the hardest hit. I think it is important, and I want the House to take note of it because it is a somewhat unique experience, that on this issue the members of the NDP and the Progressive Conservatives from Manitoba are united.

Mr. Kempling: That is strange.

Mr. Epp: It is strange, but I believe it is so for the simple reason that we look at the impact on our province and it comes

back to the point I make that the question is: can we deliver that service to the people? That is the issue; I have no other interest. Underlying this whole issue of federal-provincial relations and government in the modern age is a question I have been troubled with for some period of time. Perhaps this bill is a good vehicle by which to raise this question in the House. Hopefully, it will occupy the time of members in the future, at least to some degree. The question is this: as we develop the social welfare state programs which are good in themselves, at what point do we get to what some observers now call the ungovernability of the social welfare state? The problem lies in expectations and programs becoming so onerous in terms of financial commitment that it becomes very difficult for governments at any level to establish priorities. Obviously, I feel that the priority this government places on cutbacks in medicare, hospitalization and post-secondary education is wrong and that it is a misplaced priority. However, how do we, as hon. members of the House, grapple with this question? How does one set priorities? How does one set national goals? What I see happening more and more is that when a proposal is made, people react to it in terms of a special interest group rather than in terms of the national context. Some people might want to accuse me tonight of having done the same thing. However, I will leave this question with the House: do we have both the willingness and the instruments in the House, in our committees, through public accounts, to hold the government accountable and to address the question of how we set and fund priorities in such a way that they will best serve Canadians? I suggest that we do not.

• (2120)

The question then remains: how do we change this place? We need to address that question because if we do, I suggest that Canadians would then have a better understanding and feeling for the federal system. I am not referring to better feelings toward the federal government. That is another issue. I am referring to the federal system.

Therefore, I say to Your Honour that I commend the amendment of the hon. member for Kingston and the Islands. We should get this matter to committee quickly and get answers to some of these questions. Obviously, one of the questions I want answered is the one that we have asked tonight of the Minister of National Health and Welfare. The other one is: how do we establish priorities so that we can better serve Canadians?

Some hon. Members: Hear, hear!

Mr. Nelson A. Riis (Kamloops-Shuswap): Mr. Speaker, I am very pleased to have the opportunity to rise this evening to address Bill C-97, An act to amend the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 and to provide for payments to certain provinces.

This is a bill at second reading, which is the stage of debate where we deal with principles of a particular bill, knowing that from here it goes to committee for detailed examination, clause by clause. Therefore, tonight I will restrict my comments to those of the various principles reflected here in Bill C-97.

I must say that I listened with a great deal of interest to the hon. member for Provencher (Mr. Epp). During his comments, and during those of my colleague, the hon. member for Winnipeg-Birds Hill (Mr. Blaikie), it became clear how we on this side of the House, in opposition, differ from the government. I have listened to the last number of speeches as hon. members of the government stood up, as did the hon. member for St. Boniface (Mr. Bockstael), and laid out pages and pages, minutes and minutes of statistics and data dealing with fiscal relations. As I listened I wondered if each of those hon. members fully understood what they were saying, if they believed those figures, if they understood those figures, if they had, in fact, assembled those speeches themselves or if they had been handed speeches written by some civil servant or bureaucrat. I must admit that that is the way it sounded to me. However, in listening to speeches on this side of the House at this stage of debate where the principles involved in these various bills are to be analyzed and discussed, quite a different discussion took place. The context of the comments by the hon. member for Provencher and the hon. member for Winnipeg-Birds Hill were set in the context of Canada. In other words, when we are dealing with something as complicated as federal-provincial fiscal relations, the fact that we live in the country of Canada, with its very unique geography and social fabric, means that we must deal with our kinds of problems differently from the ways in which the countries of Sri Lanka, Belgium, Switzerland or others deal with theirs. In geographic terms, we are the second largest country in the world. We are diverse and multicultural in context where one region of Canada differs dramatically from another region. Therefore, we as Canadians have a special problem facing us when we speak about federal-provincial relations or federal-provincial fiscal arrangements.

Certainly, as the hon. member who spoke previously indicated, we have a commitment to federalism in this country. The federal system can work. We have seen it work in other nations. We have seen it work in our own country in times past; but it is certainly not working well today. It is a good system. It is a system which lends itself well to Canada. However, like any other system, it is only as good as the people involved in it. Where there is a commitment on one or more sides not to be co-operative, not to work together in a state of harmony, to exist in a stance of confrontation, to be competitive and to be argumentative, the federal system does not work well under those terms. It falls to the government to set that kind of tone.

If we are to have a federal system which works in our country, the tone must be set by the federal government which then permeates throughout the nation into the various levels of government at the provincial, regional and local levels. Yet the kind of approach we have seen in this country, especially over the last number of months, does not lend itself to the kind of co-operative federalism that we in this House would like to see.

[*English*]

POINT OF ORDER

MR. HERBERT—MOTION FOR PAPERS NO. 85—ALLEGED NON-COMPLIANCE WITH HOUSE ORDER

Madam Speaker: Before I reach orders of the day, I would like to reply to the point of order brought forward by the hon. member for Vaudreuil (Mr. Herbert). If the hon. member feels the documents which were tabled are incomplete, it is not incumbent upon the Speaker to determine whether they are complete. If the hon. member feels there are documents which should have been tabled, he may seek redress by proposing a new notice of motion for those documents.

Mr. Hal Herbert (Vaudreuil): Madam Speaker, it puts us in some difficulty. The reason I rose on the point of order rather than raising a question of privilege is that I was aware there was at least one document, which I have personally seen, which was not included in the package. The difficulty, of course, is that under other circumstances one can never be sure whether one is receiving the total package. Now, under existing conditions I can produce a document which will illustrate that everything that was supposed to be tabled in this House was not in fact tabled; but I seek your guidance because I find it a most difficult situation. A member might be in the very difficult position of either not knowing everything which is supposed to be in the package, or, because in my case I know there is at least one document not in the package, suspecting that there may be others. If I raise the point again I do not see what it achieves in the final analysis.

Madam Speaker: Well, the Chair is obviously in the same difficulty as the hon. member. How can the Chair determine if all the documents have been tabled? I gave my guidance to the hon. member; he may make a new motion for the tabling of documents in the hope that he will get those documents which he is certain exists and which have not been tabled.

Mr. Herbert: Madam Speaker, I reserve a question of privilege for tomorrow when I will have the document in my hand.

Madam Speaker: There is no question of privilege. If the hon. member wants to get more documents, the way to proceed is to make a new motion for the tabling of documents.

GOVERNMENT ORDERS

[*English*]

FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS AND ESTABLISHED PROGRAMS FINANCING ACT, 1977

MEASURE TO AMEND

The House resumed from Tuesday, March 23, consideration of the motion of Mr. MacEachen that Bill C-97, to amend the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977, and to provide for payments to certain provinces, he read the second time and referred to the Standing Committee on Finance, Trade and Economic Affairs.

Hon. Michael Wilson (Etobicoke Centre): Madam Speaker, last night at ten o'clock I indicated that I felt it was a major backward step on the part of the Prime Minister (Mr. Trudeau) to state that co-operative federalism was dead. I said that because I felt it displayed a total lack of sensitivity towards the different regions of this country and a lack of understanding of the problem of increasing regionalism, and not just in Canada, although that is very much a factor in our country. However, it is also a growing phenomenon in many other countries of the world as well. Against this broad background it is no time for unilateral action within Canada and no time for confrontation. It is no time for unilaterally forcing cuts in the established programs funding when we have ten provinces unanimously opposed to this proposal.

Yesterday my colleague, the hon. member for Kingston and the Islands (Miss MacDonald), suggested deferring a decision on the established programs funding cuts for two years, and she will be proposing an amendment to this effect. One good reason for such a proposal is the confusion over the figures we are talking about here. The Minister of Finance (Mr. MacEachen) indicated in the budget that the net cuts for all provinces were of the order of $1.9 billion. About two weeks later he and his officials acknowledged there was a mistake; the net cuts were something of the order of $2.5 billion. About a month after that we heard reports that the net cuts were much larger than that, something like $4.5 billion.

● (1510)

We have been trying to get an answer from the Minister of Finance to a certain question. On budget night, he was prepared to force a cut in financing on the provinces amounting to $1.9 billion net, then, two weeks later, amounting to $2.5 billion, and amounting to $4.5 billion a month later. How can the minister propose continuing on this path when he knows that that substantial increase in cuts was much more than he had previously anticipated and much more than he had made his plans on? That is one of the very key problems which must be reviewed during this two-year period that my colleague has proposed.

There is another factor here. Taking the action of unilaterally cutting the financing, which the government is now proposing, and then having some discussions with the provinces,

surely puts the cart before the horse. We should be reversing this procedure. First, we should hold national conferences to discuss the broad objectives and the levels of responsibility and, following that, decide whether the federal government, the provincial governments or the users will pay. That is surely the way we should solve this problem.

Time and time again, in our special committee on the budget, members of the public came to us and said that the budget process was wrong as the minister proposed significant changes in the budget without any provision for recourse or understanding of the effects, which could have been determined through discussions with th people who would be affected. There was no consideration of the impact of those changes. The minister is repeating the same mistakes again. Surely, from the loud outcry from the opposition concerning this disastrous budget which he brought down on November 12, the minister understands that the process was wrong then. He has even indicated that. However, he has not learned, as evidenced by his actions on the established programs financing cuts. The minister is wrong. He has made this same major mistake again. All Canadians will suffer from a cut in services for post-secondary education and health.

The minister is also playing games with figures. We have had a great deal of difficulty in understanding the minister concerning the size of the cuts that we have here. He says there will not be any cuts. However, when we look at the official estimates of government spending, they show that for health and related matters approximately $4 billion will be transferred to the provinces this year. Last year the transfers amounted to $4.3 billion. Therefore, there will be a $300 million loss in health programs. Similarly, using the same source, there will be a $180 million spending cut in the post-secondary education area. Therefore, the spending cuts have increased by $480 million from last year. That is surely proof positive, in black and white terms, that we have a clear spending cut of $500 million. Those amounts should result in an increase in spending of the order of $500 million or $600 million to keep pace with inflation. In effect, the provinces are suffering approximately a $1 billion cut in what they would have received had the program stayed in place. That is the nature of the problem. The provinces cannot afford to take that sort of a cut. I will come back to this in my remarks later this afternoon.

We have a problem here which is partly financial. The government has a major deficit problem. That has been building up over the past ten years and I think the government must deal with the problem. However, there is a very clear question as to how it should be addressing it. Should it be addressing that problem from the standpoint of unilateral cuts, throwing the problem of the deficit on to another level of government, or should the government be addressing the problem in its own house? The government has raised spending this year by 22 per cent, when the economy is growing only at the rate of 14 per cent. That is surely not a display of restraint. The government has gone to the provinces, as it has gone to the Canadian people, and has said. "You must show more restraint. We are showing restraint." That has been stated by a government which is showing "restraint" by a 22 per cent increase in spending.

There is another element which I believe to be one of the reasons the general public is so cynical about government and public institutions today The former Minister of Regional Economic Expansion (Mr. De Bané) said most clearly last year in Winnipeg: "We want more profile; we want to get more of the credit". The government does not seem to realize that there is only one taxpayer who pays the taxes for the federal government, for the provincial governments, as well as for the municipal governments. That taxpayer does not care where the service comes from, he wants the service. That taxpayer wants to see the service provided to meet his needs. However, one level of government is saying, "We will not continue this program; we will cut it outright because we are not getting the credit that we think is due to us". That just does not wash any more.

This is why we have such a cynical attitude toward government today. This government is showing utter contempt for the taxpayer by doing that sort of thing. Therefore, we must rethink this whole system, this system of federal-provincial relationships, so that we do not have such unseemly squabbling between two levels of government over which one gets credit and which one pays at the end of the day. Governments must get together.

I thought the former provincial treasurer for the province of Ontario made some very astute remarks and proposals in his speech the other day. He said that the public is growing tired of these conflicts, of the waste, and of the expense of keeping two levels of government operating in the same fields of activity. He suggested that a small task force or a royal commission should be set up with a real sense of urgency in order to come up with an understanding of this problem and some clear recommendations. This is the approach we feel should be followed by the government, rather than rushing headlong into making these cuts in funding which drastically affect services.

Let us look at what we could do by extending the established programs financing for two years. That would allow time for such a study. We could hold national conferences in the two areas of activity most affected, namely, medical care and post-secondary education. That would provide understanding of national objectives in those two very important areas. Once we had established those national objectives, we could then sort out the areas of responsibility and decide which level of government would pay.

Another interesting observation very clearly arose in our budget committee work. There was a concern that the federal government was using this cut in the established programs financing to move into a greater, more direct role in those two areas of activity. In the case of post-secondary education, there was concern that Manpower would be using this as an excuse to come in directly with funded programs, with direct federal government coercion in the area of post-secondary education. It was called "streaming" in the meetings we held.

The merits of this were questionable because it went right to the heart of the role of higher education in our country. What is the primary role of the university? Is it supposed to produce bodies like sausages at the end so that we will have 5,000 lawyers, 3,000 engineers and 4,000 computer scientists? Or is the objective to educate people and give them freedom of choice as to the type of education they want? Should there be the type of education that the university thinks is right for the community that it is supposed to serve? That is one of the key questions which must be asked here, because if we have a withdrawal of the freedom of decision concerning the type of education we have from the regional level to the federal government level, we will lose the sensitivity of today's universities toward meeting the needs of their communities.

● (1520)

We need a national overview and we can get that from Manpower. That would be important in helping the universities and the students. What we do not need is the federal government using the power of taxation to force universities to do things that might not fit in with the requirements of their regions.

Let us also consider the practicalities of greater control by Manpower of what comes out of the universities. That question was put at three separate hearings with three different groups of people. Interestingly enough, the same answer came back each time to the following question: Who has the best feel as to what job opportunities are going to be available in five, six or seven years' time? Each time the same answer came back: The students—not the university president, not the professors, not the placement officers, but the students. It is very interesting that the student should have that best understanding of the opportunities available for him, because it is his life, his job, that is on the line. If the universities, the professors and the placement people cannot understand better than the students what the opportunities will be in three to five years' time, how can the Manpower department here in Ottawa have a better understanding? I would hope that the Secretary of State (Mr. Regan) would address that question.

The concluding question we must ask is whether the federal government should take an active interventionist role in the courses being offered. Equally important, are they capable of it? I think we have learned quite clearly from our budget committee that they are not.

The conclusion that we have come to on this side is that not only is this part of the bill wrongheaded but it could have disastrous effects on the universities and on the colleges, on the hospital funding and on the operations of the hospitals. Let us not make hospitals, universities and colleges a battleground between the federal government and the provincial governments. Let us solve those problems not on the backs of the hospitals and universities; let us solve those problems outside of that arena.

Some hon. Members: Hear, hear!

Mr. Wilson: Let us take the approach that we have discussed here and that is proposed by my colleague from Kingston and the Islands (Miss MacDonald). Otherwise, these two important pillars of our society and our country will be undermined.

There is no real question that we have a problem. It is a problem compounded by the weak economy and by the budget that the Minister of Finance brought down last November. It has undermined in so many ways the ability of the economy to operate, and therefore the ability of the economy to generate the revenues on which governments must rely to finance their operations. So let us not compound that problem by moving precipitously without adequate consultation.

In my closing minutes, Mr. Speaker, I would like to discuss one aspect of the rationale that the government has given us for moving in the way it has. It is said that there has been an imbalance in the financial strengths of the two levels of government, the federal and the provincial. The federal government has said that it is necessary to embark on this path to restore the balance that was in place ten years ago. Let us look at some of these figures. If you look at raw figures between 1959 and 1978, apparently the federal share of total government revenues dropped from about 52 per cent to 32 per cent. I maintain that that is not an accurate reflection of what is happening because those figures back in 1959 were still high as a result of the type of government responsibilities that we had coming out of the post-war era. So, viewed in isolation, you cannot say that there is an apparent problem.

Let us look at what has happened since the early 1970s, to get a clear understanding of the problem. There has been a reversal in the surplus and deficit positions of the national and other levels of government. During that period, the provincial or local level was in surplus in 1978 and the federal government was in a very large deficit position. Let us look behind those figures. First, the draw from the federal share of revenues after excluding the amount of transfer to the provinces reflected not so much a loss of power by the national government, but rather an assertion of its power in establishing programs. I am thinking here of the programs for hospital insurance, the Canada Assistance Plan, medicare, post-secondary education and so on. It used its federal spending power to finance services in the fields of provincial jurisdiction. The federal government which initiated these programs did so to leave the direct financing and day-to-day administration of them to the provinces. But their establishment meant that a transfer of the money and the tax points to that level of government from Ottawa was an important element in that whole process. That is not necessarily an unfair bargain because I think we can all understand that the level at which the taxation occurs, or at which the financing of those programs occurs, should be related to the administration of those programs.

We reached a watershed in 1977 because in return for granting greater flexibility to the provinces in the spending of the health care transfers, the federal government was released from its open-ended commitment to match provincial expendi-

ture according to various cost-sharing formulas for health and post-secondary education. From 1977-78 on, transfers of hospital insurance, medicare, post-secondary education, and the remnants of the revenue guarantee were unified into a package which was labelled the established programs financing, EPF. Part of that was financed by a transfer of personal income tax and the rest was in the form of cash grants.

What has happened since we reached that watershed? What has happened since 1977-78? From then on until 1981 the federal share of revenues after transfer climbed from 32.3 per cent to 38.3 per cent, back to roughly the level it was in 1970-71. That has occurred because of the National Energy Program and other revenues; but the simple fact is that the financing capacity of the federal government has increased substantially. Transfers as a percentage of total provincial and local revenues continued to fall from 18.9 per cent to 17.5 per cent, compared to the 1971 level of 20.8 per cent. Transfers as a percentage of provincial local expenditures also declined from 19.2 per cent to 18.1 per cent, again down from the 1971 level of 19.8 per cent.

So by every measure the provinces and the municipalities are now less dependent on federal transfers than they were a decade ago. Indeed, the federal government now has as large a share of total government revenues, after transfers, as it had in 1971, and a significantly larger share of total government spending. Yet in 1971 the federal government was practically in a break-even position. I think it had a small surplus in that year, and I do not recall that there was any reputable person raising the spectre of the fiscal imbalance at that time. You will remember that better than I would, Mr. Speaker.

So it should come as no surprise that in the same period from 1978 to 1981 when we saw federal revenues after transfers increasing 81.9 per cent, and federal expenditures after transfers increasing only 50.7 per cent, we should have a significant cut in the federal government deficit and a redress of the balance that the federal government was so concerned about.

• (1530)

The outlook today is that between now and 1983-84, according to federal projections, the federal government expects to increase its revenues after transfers by 38.1 per cent and increase its expenditures by 31.8 per cent, while increasing its transfer payments to other levels of government by only 13.7 per cent. Obviously that is considerably lower than the rate of inflation.

The clear message that I want to leave today is that we have an expectation that the Government of Canada is freeing up its financial resources for new spending programs, more government, more intervention, a higher visibility in the economy, more direct funding programs, more interference in the grassroots programs in the country, with no cost-shared programs and no involvement of the provincial governments and local governments in the administration of these programs.

What we have is a repetition of the great wave of federal spending that we had in the early 1970s. It is going to return us to the same problems we had at the end of the seventies at a time when we have shifted a greater load, and therefore a greater taxing requirement, on to other levels of government. The result will be that the overall provincial and federal government tax load will be considerably greater once we move through this process. The goal is not merely to restore the fiscal balance that prevailed about ten years ago, but to establish a new balance which is substantially more favourable for the federal government. That will take place at the expense of adequate funding of the programs we are talking about today, post-secondary education and medical care.

There is no question that this is something that Canadians must be concerned about. The decision of the federal government to use none of the energy revenues to enrich the equalization programs or continue the financing of the established programs such as the medical and post-secondary education programs reflects the belief of the government that all additional revenues should be applied either to lowering the federal government deficit or, as I indicated a minute ago, to increasing federal government programs and spending; in other words, larger government.

We have had no indication of the government's desire to put some of that money toward an energy tax credit. There are no job-creating programs of any substance, no flow back into the economy through tax incentives and these huge revenues that are coming in as a result of the energy programs. What we have is the government trying to put forward an image of a steadily eroding federal authority over the national economy. That is very suspect indeed. A very persuasive case can be made that without radical changes the federal role in the national economy will become more and more dominant, maybe as dominant as in the early post-war years.

Hon. Gerald Regan (Secretary of State): Mr. Speaker, I want to begin my remarks by dealing with some general thoughts about the financial times and the problems that not just Canada but other countries of the western world face. After I have dealt at some small length with these problems in general, I would like to turn my attention to the question of post-secondary education wherein my particular responsibility lies.

It is generally recognized that the levels of deficits being operated by government in Canada, the United States and some other areas are contributing in a significant way to inflation. It is generally recognized, not just by economists but by most citizens, that it is important for elected governments to show some restraint in relation to the growth of expenditures and make every effort to reduce the deficits that exist. If that is to occur, it is going to take the co-operation of the different levels of government to defeat inflation.

We have a situation which was referred to by the hon. member who preceded me in that the amount of tax dollars expended by the federal government as compared to those of the provincial and municipal governments has vastly decreased in relation to percentage of overall expenditures of tax dollars in the country over the past number of years. That means that efforts of restraint by the national government alone can be

of natural justice. Therefore I move, seconded by the hon. member for Athabasca (Mr. Shields):

That the government reverse its refusal to release certain documents as requested by defence Counsel of the accused, documents which allegedly confirm that the officers in question had acted with the full knowledge and indeed at the request of certain ministers of the Crown, and that the Minister of Justice undertake that no documents involving any allegedly illegal acts by the security service of the RCMP are destroyed and that they be transferred to the safekeeping of the National Archives of Canada, and that cabinet ministers who were found by the McDonald Commission as knowing certain illegal acts had been committed by the RCMP resign immediately as it benefits our parliamentary tradition of ministerial responsibility.

Madam Speaker: Is there unanimous consent for this motion?

Some hon. Members: Agreed.

Some hon. Members: No.

• • •

FINANCE

LEVEL OF TAXATION—MOTION UNDER S.O. 43

Mr. Dave Nickerson (Western Arctic): Madam Speaker, whereas the Fraser Institute has calculated that the average Canadian now pays more for taxes than for food, clothing and housing combined, and that taxes are the most rapidly increasing area of expense, I move, seconded by the hon. member for Prince Edward-Hastings (Mr. Ellis):

That this House deplores the socialist policies of ever increasing taxes and insists that the government take its greedy hands out of the pockets of Canadian taxpayers.

Some hon. Members: Hear, hear!

Madam Speaker: Is there unanimous consent for this motion?

Some hon. Members: Agreed.

Some hon. Members: No.

• • •

FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

DEBATE ON LEGISLATION – MOTION UNDER S.O. 43

Mr. Bill Blaikie (Winnipeg-Birds Hill): Madam Speaker, this House has been recently put in the difficult and unfair position of having to debate equalization legislation which has an expiry date, and established program financing legislation which does not. Given that the EPF proposals which pose great risks to health care and post secondary education need to be debated as fully as possible, I move, seconded by the hon. member for Saskatoon East (Mr. Ogle):

That this House instruct the Minister of Finance to separate the two aspects of the fiscal arrangements legislation so that equalization can be dealt with now and EPF later, and that the equalization proposals be amended to offset the inevitable disadvantage to which the province of Manitoba is put by the new formula, in order to make that new formula acceptable.

Madam Speaker: Is there unanimous consent for this motion?

Some hon. Members: Agreed.

Some hon. Members: No.

• • •

CORPORATE AFFAIRS

URANIUM PRICE FIXING TRIAL—MOTION UNDER S.O. 43

Mr. Thomas Siddon (Richmond-South Delta): Madam Speaker, given that the Liberal government has now abandoned the hypothesis that Crown corporations, senior government bureaucrats, and cabinet ministers are above the law, as witnessed by the argument by government lawyers that officials of Uranium Canada and Eldorado Nuclear Ltd. cannot be prosecuted for their involvement in the uranium cartel because they were acting in the name of the Crown, I move, seconded by the hon. member for Bow River (Mr. Taylor):

That the Prime Minister and his cabinet be soundly condemned for establishing a totalitarian standard in Canadian society where he and his officials can operate in blatant disregard of the laws of Canada while other Canadians are required to obey the same laws.

Madam Speaker: Is there unanimous consent for this motion?

Some hon. Members: Agreed.

Some hon. Members: No.

• (1115)

ORAL QUESTION PERIOD

[*English*]

AUTOMOTIVE INDUSTRY

LAY-OFFS ANNOUNCED BY GENERAL MOTORS CORPORATION

Mr. Scott Fennell (Ontario): Madam Speaker, in view of the absence of the majority of the government, I will address my question to the Minister of State for International Trade. General Motors has announced a further 1,750 lay-offs in addition to the 7,444 during the past year, which has severely eroded the economies of Whitby, Oshawa and the surrounding area in southern Ontario. This situation is totally unacceptable. What is the government going to do about it?

Hon. Ed Lumley (Minister of State (International Trades)): Madam Speaker, there are a substantial number of things the government is trying to do with respect to the Canadian automobile industry, and specifically with respect to General Motors in Oshawa. For the first time in Canada's history we obtained a major export contract for cars from General Motors in Oshawa to Iraq. That sale amounted to over $100 million. Unfortunately, the second order of that sale

bill will be a steady and inexorable decline in the standards of our universities and in the kinds of health services provided the people of Canada, about which all parties have been very proud until now. However, we are beginning to see the dismantling of most of the things that we accomplished in the last 25 or 30 years. I will not say that this Liberal government is being as brutal as President Reagan is in the United States, but it is a matter of degree, not a very big difference in degree. What we are seeing, however, are the first steps in the same kind of process, that has been such a disaster in the United States.

● (2050)

Mr. Herbert: Mr. Speaker, would the hon. member accept a serious question?

The Acting Speaker (Mr. Ethier): Would the hon. member for Winnipeg North (Mr. Orlikow) accept a question from the hon. member for Vaudreuil (Mr. Herbert)?

Mr. Orlikow: Yes, Mr. Speaker.

Mr. Herbert: Mr. Speaker, does the hon. member for Winnipeg North (Mr. Orlikow) recognize that the province of Manitoba is one of the three western provinces which restricts entry of out-of-provinces students to 5 per cent of its university enrolment, whereas the two largest central provinces have something in the order of 30 per cent enrolment of out-of-province students? Would the hon. member try to get his newly elected government to change its 5 per cent limit on out-of-province students in order that there can be fair sharing across this country for students who would like to transfer from one province to another?

Mr. Orlikow: Mr. Speaker, I am not aware of the fact to which the hon. member refers. I am not saying that it is not true, I am saying that I am not aware of the fact. If the hon. member will give me the details, I will be happy to take up the matter with the government of Manitaba. I want to say to the hon. member that there are many things about education with which I am not happy. I am not happy about the very high fees which some universities are charging foreign students, which means that only students from wealthy countries and wealthy families can come to our universities. If the hon. member wants to join me in that crusade, I will be happy to have him with me.

The Acting Speaker (Mr. Ethier): Order, please. The question is on Motion No. 1 standing in the name of the hon. member for Kingston and the Islands (Miss MacDonald).

Is the House ready for the question?

Some hon. Members: Question.

The Acting Speaker (Mr. Ethier): All those in favour of the motion please say yea.

Some hon. Members: Yea.

The Acting Speaker (Mr. Ethier): All those opposed to the motion please say nay.

Some hon. Members: Nay.

The Acting Speaker (Mr. Ethier): In my opinion the nays have it.

And more than five members having risen:

The Acting Speaker (Mr. Ethier): Pursuant to Section 11 of Standing Order 75, a recorded division on the proposed motion stands deferred.

The question is on Motion No. 2 standing in the name of the hon. member for Winnipeg-Birds Hill (Mr. Blaikie). Is the House ready for the question?

Some hon. Members: Question.

The Acting Speaker (Mr. Ethier): All those in favour of the motion please say yea.

Some hon. Members: Yea.

The Acting Speaker (Mr. Ethier): All those opposed to the motion please say nay.

Some hon. Members: Nay.

The Acting Speaker (Mr. Ethier): In my opinion the nays have it.

And more than five members having risen:

The Acting Speaker (Mr. Ethier): Pursuant to Section 11 of Standing Order 75, a recorded division on the proposed motion stands deferred.

Order, please. The House will now proceed to the consideration of the motion of the hon. member for Provencher (Mr. Epp).

Hon. Jake Epp (Provencher) moved:

That Bill C-97, an act to amend the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 and to provide for payments to certain provinces, be amended in Clause 2

(a) by adding immediately after line 19 at page 7 the following:

"(7.1) Notwithstanding sub-sections (1) to (5) and (7), but subject to sub-section (8), the fiscal equalization payment that may be paid to a province

(a) For fiscal years that begin on April 1, 1982 and for the duration of this part shall not be less than the amount equal to the sum of the percentage increase in fiscal equalization payments of the province with the second lowest percentage increase in entitlements in the absence of this section and that provinces' fiscal equalization payment for the fiscal year that begins on April 1, 1982, if any,

(b) In the event that a province's fiscal equalization entitlement for a year commencing after April 1, 1982 in the absence of sub-section (7.1) declines, its fiscal equalization entitlement under this section shall be reduced by the same amount";

(b) by striking out line 24 at page 7 and substituting the following therefor:

"determined under sub-section (6), (7) or (7.1)";

and

(c) by striking out line 29 at page 7 and substituting the following therefor:

"(7.1) for that year".

He said: Mr. Speaker, in view of the time this evening—and I know other members of the House want to speak—I will try to be as brief as possible.

The House might be somewhat surprised in terms of who the mover and the seconder of this amendment are, but I want to thank the hon. member for Winnipeg-Birds Hill (Mr. Blaikie) for seconding the motion.

This matter arises from the situation that has developed through the negotiations in federal-provincial fiscal arrangements as they affect Manitoba particularly. I said during second reading debate, and others in this House have said it as well, that I did not want to be provincial or parochial in the debate, but when one looks at the figures in terms of the equalization formula, one finds that without question the formula impacts on Manitoba most severely. People who have studied the formula, quite apart from those who come from the province in which I reside, generally agree about the impact. You will find there is a non-partisan approach to this matter in terms of the Progressive Conservative Party, the New Democractic Party here, and in fact, members of the Manitoba Legislature, and it is on that basis that I raise it.

The debate that has taken place so far, and I do not want to reflect on the preceding voice vote, has generally focused on the established programs financing and cutbacks in that field. That matter has been dealt with very adequately in the amendment standing in the name of the hon. member for Kingston and the Islands (Miss MacDonald). In terms of waiting for two years, they were not simply there to delay for the sake of delay but to be utilized for the purpose of negotiation, accommodation and agreement. That was the purpose. But what is unique is that the equalization formula is the major crux of the problem faced in Manitoba.

Prior to the negotiations that took place, we had the ten-province base. Then, when the federal government came in with its proposal, it brought in the Ontario base. The fear at that time was that Ontario as a province could become eligible for equalization payments. The argument then was that Ontario should not be eligible for equalization and, no matter what the financial factors were in Ontario relative to the rest of the country, Ontario would always be the base. That obviously reflected negatively on the province of Ontario, in fact, on the formula generally. Consequently, there was an amendment whereby a five-province base was used, the so-called have provinces.

● (2100)

The province I want to reflect on today is the province of Manitoba. Mr. Speaker, we heard in committee today the finance minister of Manitoba saying a number of startling things. He pointed out that his province would continue to face record high deficits for the next five years. We do not know what they will be, but the general projection is a minimum of $300 million per year. This will impact severely on that province's taxpayers not only in the sense of increased taxation but, equally importantly, on the ability to maintain national standards. That is another reason for the amendment by the hon. member for Kingston and the Islands. The fact is that Manitobans would have to lower their standards of health care and post-secondary education, which is unacceptable. The question then remains whether adjustments could be made in the transitional period to lessen the impact on Manitoba.

The Manitoba finance minister also said that while their deficit would increase, the federal government's deficit would decrease. I do not agree with the second part of that equation. When I look at the federal government's deficit position, my fear is that it is going to increase for the following reasons. As the economy flattens out, the Minister of Finance's projections in his November 12 budget concerning the deficit are out the window. In addition, the National Energy Program has had the effect of lowering the output of the have provinces. The province of Alberta, on which a lot of revenue projections were based, has not seen the growth projected in the NEP and in the energy agreement between Alberta and Canada.

Mr. Speaker, could we have some order?

The Acting Speaker (Mr. Ethier): Order, please. Those hon. members who are carrying on a conversation can perhaps do it behind the curtain and give the hon. member who has the floor the opportunity to complete his remarks.

Mr. Epp: Thank you, Mr. Speaker. As I was saying, I think the reduced deficit projections are now out the window. So what does the federal government do? Is there a transitional point whereby, for example, Manitoba would not be affected as greatly as it is under the five-province base? A number of us have looked at that question, and that is why you have the amendment. I said I would not be too long because I do not want to infringe on the time of other members, but the amendment proposes the following. I know there have been meetings with the Minister of Finance (Mr. MacEachen), and I think even he has been somewhat surprised at the negative impact the equalization formula has had on Manitoba. What is being proposed is that the percentage share of equalization for Manitoba could not be less than the second worst percentage of any given year, relative to the other have not provinces. The figures show, Mr. Speaker, that in 1982-83, Manitoba would receive equalization payments of 10.7 per cent, when the national average will be 13.6 per cent. In 1983-84 it would receive 10.7, when the national average will be 11.3 per cent. In 1984-85 it would receive 10.7 per cent, when the national average will be 10.5 per cent. In 1985-86 it would receive 10.7 per cent, when the national average will be 10.3 per cent and in 1986-87 it will be 10.1 per cent, when the national average will be 10.3 per cent.

You will find, Mr. Speaker, and I mention this because of the transitional period—which is why the hon. member's amendment appeals to me because it impacts very heavily on Manitoba in the first two years—that we would be willing, if that amendment were carried, to let this amendment go by because I think we would then have taken care of that first two-year period. So in order to meet that transition problem for Manitoba, we are proposing to use the second worst percentage formula, if I can describe it in that fashion. If one

looks at the formula today, Manitoba would lose $582 million net over five years. It was $747 million, but the Minister of Finance recognized the disparity and the loss has been reduced. So there has been recognition that a problem exists. I am simply saying that Manitoba taxpayers cannot afford to be locked into an equalization formula for five years which will impact on their ability to maintain national standards.

Lastly, Mr. Speaker, there is the question of whether the amendment is in order. I know members who serve on the committee are familiar with the argument that, on the basis of the House rules and because it involves some $300 million over the life of the formula, the amendment is in violation of the Royal prerogative in that the expenditure of public funds has to be a government initiative. Well, I accept that. If the government, for example, wants to move this amendment, or if it wants to modify it, I would be willing to look at the modification. I would be willing to have the government, after the discussions it has had, move an amendment similar to this one. The seconder of the motion can speak for himself, but I think he would want to consider that as well. We are simply saying that we do not approach this on a provincial, parochial or selfish basis. Rather, if we believe in equalization as it is to be entrenched in the Constitution, then surely it stands to reason that before we do on April 16 we must have in place an equalization formula which is in fact not an equalization formula. We could have used any formula, for example the Alberta formula, and then everyone would have been eligible. I would suggest to the Parliamentary Secretary to the Minister of Finance (Mr. Fisher)—and he is in the House tonight—that if he is willing to examine this question from the suggested perspectives, I would be willing to discuss with him what modifications should be made. If he wants to adopt the amendment as his own, I accept that, but I say to him that the manner in which this equalization formula impacts on the taxpayer of Manitoba is not fair. Therefore, I commend the amendment to members of the House.

● (2110)

Mr. Bill Blaikie (Winnipeg-Birds Hill): Mr. Speaker, as the seconder of the motion now before the House I would like to add to what the hon. member for Provencher (Mr. Epp) has said about the reason this particular amendment is so important. It is only days before the new Constitution is proclaimed here in Canada. Equalization payments to the provinces will be included as part of the very Constitution of Canada. If we are able to proclaim that particular section of the Constitution with any kind of integrity and consistency, then I think the amendment now before the House must be approved by the House. The amendment would redress the way in which the province of Manitoba is now affected by the proposed equalization formula.

Before I go into any more of the arguments, I would like to put on the record, what I know other hon. members have stated, even at second reading. I would like to tell the House about the way in which Manitoba is treated so unequally by this formula. In the first year of this five-year agreement, the percentage increase for Manitoba will be 9.9 per cent. What will it be for the other have-not provinces? It will range from 21 per cent to 10 per cent. In the second year of this five-year agreement, the percentage increase for Manitoba will be 6 per cent. What will it be for the other have not provinces? It will range from 14.4 per cent to 10.7 per cent. The third year is when Manitoba will really get kicked in the teeth. Our percentage increase will be 2.8 per cent. What will it be for the other have not provinces? It will be 11.3 per cent, 11.2 per cent, 11.8 per cent, 11.4 per cent and 10.7 per cent, compared to our 2.8 per cent increase. In the fourth year, what will be the percentage increase for Manitoba? It will be 3.8 per cent. Again, we are looking at figures of 11 per cent and 10 per cent for all the other have not provinces. In the fifth year we will get an increase comparable to the other provinces, around 10 per cent.

The over-all effect is that over the five-year agreement Manitoba will receive a percentage increase in equalization payments of 37.2 per cent. The next lowest will be Quebec, at 66.1 per cent. That is from 37 per cent to 66.1 per cent. The other four have not provinces, the Atlantic provinces, will all receive percentage increases in the 80 per cent range.

I simply ask, where is the justice? Where is the equalization in this? Where is the equality in this particular kind of proposal? What madness, vindictiveness, error or absence of mind led the government to develop and then to propose a formula which would treat a particular province, the province of Manitoba, in such a way? I am simply baffled. I am sincerely baffled as to why the government picked this particular formula out of all the formulas it could have picked. Other formulas would still have had the effect of reducing the government's over-all payments through equalization but would not have singled out any province as much as the province of Manitoba has been by this particular formula.

I therefore plead with hon. members on the government side to consider seriously the fact that this amendment has been moved with the support of both opposition parties. The government ought to consider making this amendment its own and bring it in before this bill goes forward.

What would be the effect of the amendment? The effect of the amendment would not be to bring Manitoba up to the highest level, to make sure that Manitoba gets exactly as much as everyone else. We realize that the formula, in order to stay a formula, must be treated with a certain amount of respect. Manitoba differs, in its fiscal capacity, from the Atlantic provinces. All this amendment asks is that in every year of that five-year agreement, Manitoba be paid a percentage increase which is at least as much as that paid the second worst province out of the six have not provinces. That seems to me to be a rather humble proposal. We are not asking to be elevated to the top. All we are asking is that Manitoba be treated the same as the second worst province, as it works out in this formula.

I do not see any reason the government cannot accept this proposal. I want to put it very bluntly to the only two Liberal members from Manitoba. If this amendment is not passed and if the government does not make this amendment its own, I

promise the hon. member for St. Boniface (Mr. Bockstael) and I promise the hon. member for Winnipeg-Fort Garry (Mr. Axworthy) that I will make sure the fact that they did not stand up for the interests of Manitoba in this House at this particular time will be carried to every doorstep in their ridings, bar none—they can count on it—in the next election.

An hon. Member: Let CUPE do it for you!

Mr. Blaikie: They are already in trouble. Between this matter and VIA Rail, we should be able to get rid of the hon. member for St. Boniface with no problem at all. The hon. member for Winnipeg-Fort Garry will look after himself.

Some hon. Members: Oh, oh!

Mr. Taylor: The Prime Minister (Mr. Trudeau) will hire him.

An hon. Member: The Senate. Senator Axworthy!

Mr. Blaikie: I am quite serious, but I look across at the hon. members, and they are smiling, having a bit of a jape among themselves. If they think this will not have some political impact on their fortunes in Manitoba, then they are kidding themselves. God knows, it could not get much worse, but they still do elect people out there. This will have an effect on the province of Manitoba and that effect will be made known to the voters of Manitoba by the provincial government and by members of both the Progressive Conservative Party and the New Democratic Party.

There is an argument which has been offered concerning the reason Manitoba should not be complaining too loudly about the way it is treated by this equalization formula. Just for those who might have the misfortune of hearing it, the argument is that payments to Manitoba in the last five year period were quite generous and that the formula has just worked out differently this time. One gets lucky in one five year period and the next five year period one gets unlucky. We really got unlucky this time, but that is another matter.

The reason that the equalization payments to Manitoba appear to be so generous in the last five year period is that they are viewed in relation to the payments it received in the five year period before that. One cannot view these equalization payments as a little snap photograph in history somewhere and then say, "Look what you were getting last time." The equalization payments Manitoba received from 1977 to 1982 were higher because it had received a bad deal for 1972 to 1977. It seems that the Liberals go in cycles. Now it seems that we are supposed to get a bad deal again. However, as I tried to point out, this time we are really getting a bad deal. We are getting such a bad deal that one finds the province of Manitoba getting a percentage increase which is approximately half of what the second worst province in the formula receives, or 37.2 per cent as opposed to 66.1 per cent, which is what Quebec will receive over the next five years.

• (2120)

All we are asking in this amendment is that the province of Manitoba be raised up to the level of the second worst province in the furmula. I want to repeat Mr. Speaker, why would you have a formula that does this to one particular province? I cannot understand it. It does not make any sense.

When I came down here as a new member of Parliament, it may be because I come from Manitoba—where we are a kind of combination of political and cultural values, with Ontario and the west and ourselves right smack in the middle—I did not really have a kind of regional consciousness. I did not come down here to be a spokesman for Manitoba, I came down here to be a member of the Canadian Parliament and to figure out what to do for the whole country.

I must say that over the last few years, sitting here and looking over there, and seeing what can be done to rail service, seeing what can be done to the Crow or what is proposed to be done to the Crow, and the whole attitude of the government, I found myself developing more and more a regional consciousness here in the House. In a way I regret it. I did not come down here to see myself as a member from one region opposed to members from another region. The fact of the matter is that this is what is beginning to happen to me, and I regret it. After these last few weeks, after looking at a formula that treats my home province in this particular way, I cannot say that I am exactly on my way to retreating from that regional consciousness of which I spoke.

I plead with the hon. members, on the government side in particular, not to allow this present equalization formula to go through in the way it is. It would be a tragedy for Manitoba, it would also be a tragedy for our whole view of equalization. It makes a mockery of the very notion of equality between the provinces and the ability of all provinces, no matter which province it may be, to provide public services at reasonably comparable levels.

We had some other amendments to move, Mr. Speaker. I want to mention some. We moved them in committee. If we spend all our time now and we vote on this amendment, so be it, because this is one of the most important amendments in this particular package. I am going to sit down so that others can have a chance to speak.

I want to put on the record that in order to pay more attention to this particular proposal we have forgone our opportunity to debate our amendment dealing with the way in which the federal government is discriminating against the province of Saskatchewan by not forgiving them what the province of Saskatchewan owes them due to census readjustment, when we are forgiving all the other provinces that owe the federal government money.

We have forgone our amendment which tries to get rid of the GNP cap that the Liberals have put on the equalization payments. That is another way of deconstitutionalizing equalization payments, by saying that equalization has its limits and it is going to be tied to the GNP. We have forgone that amendment.

There is one other amendment that we have forgone that I want to mention. It is one in which we want to build into this fiscal package an opportunity for review before the next fiscal arrangements are negotiated, in the same way as happened in an ad hoc way, as a result of the setting up of the special parliamentary task force on federal-provincial fiscal arrangements. I thought that was a particularly good exercise. I began to have my doubts about it as I listened to members of the very task force that I was on and who signed the same paper that I signed. Yet I saw the hon. member for Vaudreuil (Mr. Herbert) and the hon. member for Gloucester (Mr. Breau) get up here and I can hardly believe that these are the same people with whom I spent 265 hours in hearings, and that those are the same people who signed the parliamentary task force report. That report made a lot of recommendations, and good recommendations, that this government has completely ignored, including some of the central recommendations, like the revenue guarantee, leaving the money attributable to the compensation in the revenue guarantee. This particular package was taken out; that was a main recommendation, but they ignored it.

Not having lost faith in democracy, Mr. Speaker, I would suggest that by the next time we have that kind of review, we might have a different government. Who knows, we might even have a New Democratic government. Wouldn't that be the day! Then we would have a government that would pay attention to those people who come to these hearings and who give their views. We might pay attention to them. So, Mr. Speaker, I hope that we will pass this amendment, redress this injustice to Manitoba and then truly have the kind of equalization formula that we ought to have.

Some hon. Members: Hear, hear!

Mr. Charles Mayer (Portage-Marquette): I would like to take a few minutes of the time this evening, Mr. Speaker, to make the case that the mover and seconder of this motion, the hon. member for Provencher (Mr. Epp) and the hon. member for Winnipeg-Birds Hill (Mr. Blaikie) have made.

When listening to this discussion and the debate that has gone on so far, I wondered whether someone coming here, listening to the debate for the first time, would wonder whether he was a citizen from another planet or from another part of the world. Someone capable of being a little more objective than many of us are would wonder whether we were talking about two separate sets of taxpayers; one set of taxpayers paying tax to the provincial government and one set of taxpayers paying taxes to the federal government. It seems to me that we have lost sight of the fact that the same people whom we are discussing, asking whose ox is going to be gored, happen to be the same taxpayers of the country, whether they pay those taxes to the provincial government or to the federal government and whether they get the services back from the provincial government or from the federal government. It seems to me that we should be concerned about the taxpayers as citizens of the country who are expecting some services back for the taxes that they pay. If we could keep that in mind, we might have a better attitude to what goes on in the House and set a better example to those who watch the debate and the proceedings in the House.

It is up to us to set the proper tone, to realize that we should both be aiming at serving the people who pay the taxes and those who are expecting the services back—and in this case we are talking about the equalization payment.

I have two or three other quick points, Mr. Speaker, and I am glad to see that the parliamentary secretary is here and paying close attention. I know he has a close relative in Manitoba. It is not that I expect anything in the way of a favourable decision or any judgment that he may have in this matter. I just point out that he has a relative who comes from Manitoba and, having regard to that, I expect he is well aware of the province and some of the problems we have there.

As to the point whether we should or should not have more from the federal government I think that what concerns us in Manitoba—and this is a non-partisan topic in Manitoba, or at least it should be—is that whatever point has to be made for Manitoba, or whatever cuts there are, we expect they should be equal across the country.

All kinds of figures have been given by the two hon. members who spoke ahead of me. Many people talk about percentages and statistics. The point, to my mind, is that Manitoba, over the next five years, will receive an average increase of about one-third over what we have now, whereas the next lowest increase will be approximately two-thirds. Looking at it on that basis, it is not a small amount, it is a large amount. We will get about half as much, on average, as far as the increase goes over the next five years, as the lowest province next to us. So we are not talking about a few fractions or a few decimal points here and there, we are talking about almost half as much of an increase as the province of Quebec will get, which will be the next province above Manitoba.

When we are dealing with figures like this, it sometimes takes a long time to fully understand them, regardless of whether we want to be critical of the Department of Finance or the Minister of Finance (Mr. MacEachen) or whoever is in power, and there is a possibility that something has been overlooked. I do not think we can use that excuse any more after tonight, because the issues have been well aired in committee and it has been well aired in the House of Commons. Up until now, if we wanted to be kind about it, we probably could have given the government the benefit of the doubt and said it was an honest mistake; but we are drawing the attention of the government to it this evening and hereafter I do not think that excuse will hold water any more, so clearly we have to make clear the position it is going to put Manitoba in by this new equalization formula.

• (2130)

It puts us in a particularly bad situation because, as the Manitoba minister of finance said this afternoon, talking about that province, "We are heading to greater deficits at the same time that the federal government is heading toward lower deficits". There is another problem that we have. At the same

time the federal government is attempting to lower its deficit, if Manitoba wants to maintain the services that have been provided in the past, there will be larger deficits for the province of Manitoba. I think all members will find that acceptable. One would expect the federal government to have some sympathy for that position if it believed its projections and, if those projections come about, because the federal government is heading toward a lower deficit.

Another point needs to be made with regard to the equalization formula. Over the past number of years our record in terms of economic growth has stayed relatively constant. As the hon. member for Winnipeg-Birds Hill said, there is no reason why over the next five years we should be treated so much worse than the average. It appears there is nothing in terms of the formula which would cause us to be treated less well in terms of less equalization payments than we have been in the past.

I really cannot understand why this amendment should not be passed. I do not want to get into the threats made by the hon. member for Winnipeg-Birds Hill. We do not threaten to campaign against the two Liberal members who have been elected in Manitoba. We want to get the job done for the citizens of Manitoba. If the government would take that kind of attitude, it would see fit to support this amendment. Whether it be in the name of the mover and seconder is immaterial. We are interested in seeing that the citizens of Manitoba are treated equally relative to other citizens throughout the country.

I wish to close by referring to something said in the throne speech on April 14, 1980, almost two years ago. In the throne speech it was said that members of parliament who are not government members have a special duty to represent those areas of the country that are not represented by government members. On the other hand, we have a special duty to represent our part of the country here in the house and to represent Canada in our constituencies. This is an opportunity for the government to put that into practice.

If we are to do a good job in terms of being federal members and standing up for our country, we have to be treated fairly. I throw that admonition back to the government members to ensure that we are not treated unfairly in Manitoba so that we can be proud to be part of this part of the country and are treated fairly.

I do not want to prolong the debate. I hope that the two Manitoba members who sit on the government side will prevail upon the government to correct what is obviously a very bad situation for Manitoba when you look at the equalization payments in the new formula.

Mr. Douglas Fisher (Parliamentary Secretary to Deputy Prime Minister and Minister of Finance): Mr. Speaker, it is my pleasure once again to comment on Bill C-97 following the three previous speakers, especially the last one who reminded me so touchingly of my close family ties in Manitoba. I am not sure whether it is appropriate or not but I would like to take this occasion to say hello directly to those members of my family who might be watching right now. It is a real pleasure.

Before I go into some of the arguments on the other side, I would like to put on the record again, as was done earlier today, some of the statistics that are involved. This will help the people of Manitoba to cut through the rhetoric that has been thrown out by all parties.

This year $895 million will be going to the people of Manitoba under the equalization and established programs financing. Over the next five years that will grow until 1986-87, when $1,280 million will be sent out. That gives a grand total of $5,363 million. Included in those figures is a total of $165 million being sent to Manitoba to help that province in the change from one calculating formula to another. That $165 million is broken down as follows: $82 million this year, $56 million next year and $27 million in the third year. It is a diminishing transition payment intended to cushion the blow of moving from one formula to another.

There is a third payment that has not been included in these calculations, that is, $31 million going to Manitoba in the form of forgiveness for some calculations on population size. That $31 million was included in payments made previously. When the new population figures were provided, it was found we had overpaid by that amount. That amount technically is being forgiven. That is an extra $31 million for the province of Manitoba.

This afternoon in committee and now in the House we have heard talk about the formulas and the basis for calculating them as if there were some kind of competition between the provinces. That is misleading. Equalization payments are exactly that; equalization payments make provinces equal to a mathematical standard. The minister clearly explained this when he visited the committee last Monday. I would like to pass along a couple of comments which the minister made. He said:

> The formula is intended to bring all provinces up to a standard. Obviously, at a certain stage, particular provinces get close to that standard, and because of that the yield of equalization decreases and some provinces slip out of the equalization formula because of their improved fiscal capacity.

The minister pointed out a couple of other things, particularly with respect to Manitoba. He said it is still true that even with the transitional payment, calculating the rate of growth percentage-wise year to year in certain years, the rates of growth for Manitoba are less than for the Atlantic provinces or Quebec. He answered by saying:

> If an equalization system is to measure fiscal capacity it cannot yield similar results for every province.

In other words, let we remind our friends from the NDP of one of the age-old principles that they like to present to the Canadian people; that is: from each according to his ability, to each according to his need.

We do not give the same amounts to every province. For example, we do not yet give any equalization to Ontario. Bill Davis might put us in the position where we eventually have to make an equalization payment to Ontario, but we are not yet in that position. Should Ontario then come to us and say that

it is receiving less equalization on a percentage basis than Manitoba and therefore it should get a special grant to make up for that? It sounds ridiculous. It is equally ridiculous for Manitoba to say that it is receiving less than the Atlantic provinces and therefore it should get some flat payment in forgiveness. That is what is being presdented here, a kind of competition among the provinces where they would say, "Because we do not get as much on a percentage basis, we want a special payment". That is what the members are telling the federal government. I am sorry but I cannot agree with that.

● (2140)

Let us review some of the statistics involved. From 1976-77 to 1981-82, Manitoba's equalization entitlement had increased more rapidly than those of any other province. It went up in Manitoba by 156 per cent, and it went up in Nova Scotia by 72 per cent. How did this happen? Why did Manitoba get 156 per cent and Nova Scotia only 72 per cent?

The treasurer of Manitoba answered that question in the committee this morning. He said:

> Over the last five years, the Manitoba economy has performed well below the national average, and a number of indicators, such as real growth, job creation and investment show our performance to have been the worst of any province.

Since the performance was bad, equalization payments were greater in order to lift Manitoba's share up to the national standards. Now that Manitoba is closer to that standard, the percentages will not be so high. It is a very simple calculation.

Mr. Blaikie: That is a completely false argument.

Mr. Fisher: It is not a competition between regions; it is a measurement against a standard.

Mr. Blaikie: You do not even know what you are talking about.

Mr. Fisher: When you get closer to that standard, you get a lower percentage. It is unfortunate that the members have decided to present it as some kind of competition between regions. I can assure the hon. member for Winnipeg-Birds Hill (Mr. Blaikie) that he is at his best when he is not slipping into the narrow regional interests which he presented earlier. He should keep his sights high and keep himself on course.

What are members asking for, Mr. Speaker? Let us be specific. They are saying that the special $165 million transition payment is not enough. The federal government has taken some steps to soften the change-over, yet some hon. members are saying that it is not quite enough and would like just a little bit extra—just $300 million extra. They say, "That $165 million does not quite get us there, but $300 million would get us home".

Members are expressing some other views. They are saying that Manitoba should not only have that extra gift—virtually two times more than what it is receiving—it should also have a special status in order to enjoy that gift so that no other province would get it. I cannot accept that because it is asking for far too much.

We must recall that it receives less because it is closer to the standard. It is no longer experiencing the hardships described by the treasurer.

Mr. Blaikie: Mr. Speaker, on a point of order—

Mr. Fisher: I will answer questions at the end.

Mr. Blaikie: If the Parliamentary Secretary to the Minister of Finance (Mr. Fisher) would answer a question—he made a commitment to answer a question at the end of his remarks.

The Acting Speaker (Mr. Ethier): That question will be permitted with the consent of the Parliament Secretary to the Deputy Prime Minister and the Minister of Finance and the unanimous consent of the House. Is there unanimous consent?

Some hon. Members: No.

Mr. Fisher: Mr. Speaker, the hon. member has had ample opportunity to speak. I think that the hon. member must admit that I have listened with great interest and attention to his comments, which is why I am now in a position to be able to answer some of them.

Miss Jewett: You started it.

Mr. Fisher: What is the federal government proposing for Manitoba apart from the $165 million transition payment, the $31 million special population payment—

Mr. Blaikie: That is included in the figures we were using.

Mr. Fisher: —and a very healthy growth in our support for general programs? We want Manitoba to get out of the conditions which have been forecast to be so terrible by the treasurer. On this side of the House my two colleagues do not look upon the world with the same gloom and doom as the treasurer did today, describing that province's future in such terrible terms. It is my hope that their varying trasitional payments are unnecessary, I hope that the special gifts are unnecessary and that their economic health brings them to the point where their equalization payments are similar to those of Ontario, Alberta, British Columbia, and other rich provinces, that is, zero. If we can get Manitoba to the point of zero—

Miss Jewett: Typical Ontario patronizing.

Mr. Fisher: —what better gift to give that province than that kind of payment?

Some hon. Members: Hear, hear!

Mr. Blaikie: Mr. Speaker, I rise on a point of order. I understood from the hon. member that he would permit a question at the end of his remarks. Will he permit a question?

Some hon. Members: Sit down.

The Acting Speaker (Mr. Ethier): Order, please.

Mr. Blaikie: Mr. Speaker, it just shows that the Liberals will clap for anything. My question to the Parliamentary

Statement on Federal Proposals on Funding for Health, Post-Secondary Education and Equalization

Honourable Victor Schroeder
Minister of Finance

**Tabled in the 32nd Legislature,
Province of Manitoba,
First Session on March 22, 1982**

Mr. Speaker:

I have a statement that I would like to make to the House. Mr. Speaker, on Friday, March 19th, the federal government distributed copies of the fiscal arrangements legislation which it will present for Second Reading in the House of Commons early this week.

The most important provisions of the new legislation are: first of all, replacement of the current ten-province national average formula for calculating equalization payments with a new formula which uses the average taxing capacities of only five of the ten provinces as the standard for determining payments; and secondly, the elimination of the so-called revenue guarantee component from federal established programs financing payments for health care and post-secondary education.

The E.P.F. cutback was consistent with the announcement which the federal Minister of Finance made in his Budget in November. The equalization formula change, however, represented a departure from the November Budget proposal. In the Budget the federal government had suggested using a single province, Ontario, as the standard for calculating equalization and it wasn't until early February at the First Ministers' Conference on the Economy that Ottawa indicated it might be prepared to move away from that position. However, its intention to introduce legislation to provide for a five-province standard was not confirmed until Friday. Similarly, it wasn't until Friday that we received confirmation that the federal legislation would contain provisions to authorize certain special measures to assist our province and some others. Firstly, a transitional equalization adjustment payment for the first three years of the new arrangements and, secondly, population recovery adjustment payments which represent cancellation of certain prior year equalization adjustments arising out of the 1981 census figures.

While we commend the federal government for the adjustments, our calculations indicate that Manitoba still faces the largest loss in relative terms of any province over the next five years. We now estimate that compared to an extension of the present arrangements, the cutbacks for Manitoba will total $62.9 million in 1982-83; $122.3 million in 1983-84; $172.4 million in 1984-85; $223.1 million in 1985-86; and $248.6 million in 1986-87; for a total over the five-year period of $828.3 million. These figures exclude the effect of so-called income tax offsets resulting from the tax changes introduced in the November Budget.

The net figure for Manitoba for the same five-year period, taking tax offsets into account, is $719.3 million. On the basis of that net figure, we still face a five-year loss equivalent to about $2,800 for an average family of four. While this is down from the $3,600 originally forecast, it is still more than double the national average reduction of $1,200 and well ahead of the province with the next largest loss, Quebec, at $2,300.00. Estimates for all provinces are included in a background paper which I have tabled along with the statement I am making. It is important to emphasize that these estimates take into account the transitional equalization adjustment payments provided for in the federal legislation.

As Mr. MacEachen indicated in his statement in Winnipeg on Saturday, these adjustments are now estimated to total $165 million for Manitoba over the next three years; $82 million in 1982-83; $56 million in 1983-84; and $27 million in 1984-85. Those figures are substantial and welcome, but it must be remembered that they are as large as they are because the basic payments onto which they are being added are comparatively low. For example, the federal government is now projecting our 1982-83 equalization entitlement including the transitional adjustment at $431 million. However, without the $82 million transitional adjustment payment, our basic entitlement under the five-province standard formula would be about $349 million. That figure can be compared to the most recent estimate of our entitlement for the current year 1981-82 under the present system of $392 million and the most recent estimate of our entitlement for 1982-83 under the present system of $452 million.

Over the last few weeks our government has indicated to the Government of Canada that while we prefer the five-province standard to the single province Ontario standard as a basis for calculating equalization, we felt neither was consistent with the principle of equalization, which is to become a permanent part of the Canadian Constitution.

In our view, the formula which presently comes closest to that principle is the full ten-province national average formula which is now in effect and we emphasize strongly that our first preference was to see that formula continued.

I indicated to the House on Friday that there was some possibility that I might meet over the weekend with the federal Minister of Finance when he was in Winnipeg. Mr. MacEachen's schedule did not permit such a meeting, but it now appears as if we will be able to arrange a meeting in Ottawa in the near future. At that meeting I intend to urge the federal Minister once again to modify his legislative proposals in order to ensure that Manitobans receive equitable treatment. I remain optimistic that he will give favourable consideration to our position. I will keep the members informed of further developments in the negotiations.

Federal Proposals for Cutbacks in Funding for Health, Post-Secondary Education and Equalization

Financial Implications Summary

Department of Finance
Province of Manitoba

Tabled in the
Manitoba Legislature
March 22, 1982

Background

The federal government distributed legislation to amend the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act on Friday, March 19, 1982.

While the federal government did not present full and complete side-by-side estimates of the impact of its proposals on the provinces, Manitoba has prepared its own estimates of the impact of the federal legislation.

These estimates — which should be regarded as tentative, pending further technical consultations with the federal government — take into account the population adjustments associated with the 1981 Census and a number of revised revenue estimates and revenue adjustments which are incorporated in the federal material on its proposals.

Under the federal proposals, Manitoba faces total federal cutbacks of about $63 million in 1982-83 on equalization and Established Programs Financing.

This latest estimate of the overall cutbacks facing Manitoba in the coming year is considerably lower than the estimated $151 million in cutbacks facing the Province on the eve of the First Ministers' Conference last month, in part because of the population adjustments, in part due to modifications in the federal offer and in part due to revised information on various revenue sources.

The federal Bill also contained provision to forego population-related equalization recoveries for 1980-81 and 1981-82. These are estimated at $31 million for Manitoba. Had the federal government not agreed to forego these adjustments, Manitoba's total loss in 1982-83 could have been about $94 million, according to the latest revised information.

For the longer term, current estimates indicate a total cutback to our Province in excess of $828.3 million over the next five years and net losses of $719.3 million when the federal Budget-related provincial tax increases are taken into account. Although the situation has improved fairly substantially relative to the total cutback of $1,051 million and the net loss of $942 million Manitoba was facing, given the best information available on the eve of last month's First Ministers' Conference, the reductions are still severe. Under the revised federal proposals, Manitoba faces net losses amounting to $2,786 per family of four over the next five years, over double the national average loss and the highest of any province.

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOALS
($ Millions)
1982-83

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	19.5	4.1	28.7	23.7	211.3	288.1	**34.2**	32.8	193.1	121.5	960.8
• E.P.F. Cash Cutback due to											
— Interaction with equalization proposal	0.4	0.1	0.7	0.5	3.2	—	**0.7**	—	—	—	5.6
— Budget Tax Changes	1.0	—	3.0	2.0	29.0	36.0	**7.0**	10.0	37.0	21.0	146.0
• Equalization Cutbacks	(20.0)	(6.0)	(17.0)	(8.0)	246.0	—	**21.0**	—	—	—	216.0
TOTAL FEDERAL CUTBACKS	**0.9**	**(1.8)**	**15.4**	**18.2**	**489.5**	**324.1**	**62.9**	**42.8**	**230.1**	**142.5**	**1,328.4**
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Cutbacks	0.9	(1.8)	15.4	18.2	489.5	324.1	**62.9**	42.8	230.1	142.5	1,328.4
Less: Increased Value of Tax Transfer	1.0	—	3.0	2.0	29.0	36.0	**7.0**	10.0	37.0	21.0	146.0
Provincial Transfer Payment Reductions	(0.1)	(1.8)	12.4	16.2	460.5	288.1	**55.9**	32.8	193.1	121.5	1,182.4
Provincial Tax Increases	6.0	1.0	18.0	9.0	77.0	171.0	**24.0**	28.0	90.0	82.0	507.0
Net Impact on Provincial Finances	**(6.1)**	**(2.8)**	**(5.6)**	**7.2**	**383.5**	**117.1**	**31.9**	**4.8**	**103.1**	**39.5**	**675.4**
COST PER FAMILY OF FOUR ($)	**(43)**	**(91)**	**(26)**	**41**	**238**	**54**	**124**	**20**	**180**	**56**	**110**

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOSALS
($ Millions)
1983-84

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	22.0	4.6	32.3	26.7	237.5	324.7	**38.3**	37.1	211.1	135.0	1,073.7
• E.P.F. Cash Cutback due to											
— Interaction with equalization proposal	0.6	0.1	1.0	0.7	4.8	—	**1.0**	—	—	—	5.6
— Budget Tax Changes	1.0	—	2.0	1.0	12.0	14.0	**5.0**	7.0	25.0	13.0	79.0
• Equalization Cutbacks	(11.0)	(5.0)	(5.0)	3.0	482.0	—	**78.0**	0	—	—	542.0
TOTAL FEDERAL CUTBACKS	**12.6**	**(0.3)**	**30.3**	**31.4**	**736.3**	**338.7**	**122.3**	**44.1**	**236.1**	**148.0**	**1,700.3**
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Cutbacks	12.6	(0.3)	30.3	31.4	736.3	338.7	**122.3**	44.1	236.1	148.0	1,700.3
Less: Increased Value of Tax Transfer	1.0	0	2.0	1.0	12.0	14.0	**5.0**	7.0	25.0	13.0	79.0
Provincial Transfer Payment Reductions	11.6	(0.3)	28.3	30.4	724.3	324.7	**117.3**	37.1	211.1	135.0	1,621.3
Provincial Tax Increases	5.0	1.0	16.0	8.0	39.0	135.0	**20.0**	22.0	74.0	70.0	389.0
Net Impact on Provincial Finances	**5.6**	**(1.3)**	**12.3**	**22.4**	**685.3**	**189.7**	**97.3**	**15.1**	**137.1**	**65.0**	**1,232.3**
COST PER FAMILY OF FOUR ($)	**39**	**(42)**	**57**	**127**	**423**	**87**	**378**	**61**	**232**	**91**	**199**

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOSALS
($ Millions)
1984-85

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	25.1	5.3	36.8	30.5	269.8	369.6	**43.4**	42.4	223.7	135.9	1,187.0
• E.P.F. Cash Cutback due to											
— Interaction with equalization proposal	0.6	0.1	1.0	0.8	5.0	—	**1.0**	—	—	—	8.6
— Budget Tax Changes	—	—	2.0	1.0	3.0	3.0	**4.0**	6.0	20.0	10.0	48.0
• Equalization Cutbacks	(6.0)	(7.0)	(8.0)	3.0	532.0	—	**124.0**	18.0	—	—	657.0
TOTAL FEDERAL CUTBACKS	**19.7**	**(1.6)**	**31.8**	**35.3**	**809.8**	**372.6**	**172.4**	**66.4**	**243.7**	**145.9**	**1,900.6**
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Cutbacks	19.7	(1.6)	31.8	35.3	809.8	372.6	**172.4**	66.4	243.7	145.9	1,900.6
Less: Increased Value of Tax Transfer	0	0	2.0	1.0	3.0	3.0	**4.0**	6.0	20.0	10.0	48.0
Provincial Transfer Payment Reductions	19.7	(1.6)	29.8	34.3	806.8	369.6	**168.4**	60.4	223.7	135.9	1,852.6
Provincial Tax Increases	4.0	1.0	13.0	6.0	11.0	72.0	**15.0**	19.0	53.0	50.0	242.0
Net Impact on Provincial Finances	**15.7**	**(2.6)**	**16.8**	**28.3**	**795.8**	**297.6**	**153.4**	**41.4**	**170.7**	**85.9**	**1,610.6**
COST PER FAMILY OF FOUR ($)	**108**	**(84)**	**77**	**159**	**489**	**135**	**595**	**166**	**280**	**117**	**257**

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOSALS
($ Millions)
1985-86

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	28.3	5.9	41.7	34.5	304.6	418.0	49.0	48.1	238.2	138.9	1,312.1
• E.P.F. Cash Cutback due to											
— Interaction with equalization proposal	0.7	0.2	1.1	0.9	5.1	—	1.1	—	—	—	9.0
— Budget Tax Changes	—	—	2.0	1.0	3.0	3.0	4.0	7.0	19.0	9.0	49.0
• Equalization Cutbacks	(4.0)	(7.0)	(10.0)	4.0	591.0	—	169.0	64.0	—	—	807.0
TOTAL FEDERAL CUTBACKS	**25.0**	**(0.9)**	**34.8**	**40.4**	**903.7**	**421.0**	**223.1**	**119.1**	**257.2**	**147.9**	**2,177.1**
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Cutbacks	25.0	(0.9)	34.8	40.4	903.7	421.0	223.1	119.1	257.2	147.9	2,177.1
Less: Increased Value of Tax Transfer	0	0	2.0	1.0	3.0	3.0	4.0	7.0	19.0	9.0	49.0
Provincial Transfer Payment Reductions	25.0	(0.9)	32.8	39.4	900.7	418.0	219.1	112.1	238.2	138.9	2,128.1
Provincial Tax Increases	3.0	1.0	13.0	6.0	9.0	64.0	15.0	20.0	48.0	47.0	227.0
Net Impact on Provincial Finances	**22.0**	**(1.9)**	**19.8**	**33.4**	**891.7**	**354.0**	**204.1**	**92.1**	**190.2**	**91.9**	**1,901.1**
COST PER FAMILY OF FOUR ($)	**151**	**(61)**	**90**	**186**	**545**	**160**	**788**	**366**	**303**	**123**	**300**

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOSALS
($ Millions)
1986-87

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	31.7	6.6	46.7	38.7	340.5	468.2	**54.6**	54.0	254.6	157.3	1,458.2
• E.P.F. Cash Cutback due to											
— Interaction with equalization proposal	0.6	0.2	1.1	0.8	4.5	—	**1.0**	—	—	—	8.2
— Budget Tax Changes	—	—	1.0	1.0	0	0	**3.0**	6.0	15.0	6.0	33.0
• Equalization Cutbacks	(2.0)	(7.0)	(8.0)	8.0	677.0	—	**190.0**	86.0	—	—	942.0
TOTAL FEDERAL CUTBACKS	**30.3**	**(0.2)**	**40.8**	**48.5**	**1,022.0**	**468.2**	**248.6**	**146.0**	**269.6**	**163.3**	**2,441.4**
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Cutbacks	30.3	(0.2)	40.8	48.5	1,022.0	468.2	**248.6**	146.0	269.6	163.3	2,441.4
Less: Increased Value of Tax Transfer	0	0	1.0	1.0	0	0	**3.0**	6.0	15.0	6.0	33.0
Provincial Transfer Payment Reductions	30.3	(0.2)	39.8	47.5	1,022.0	468.2	**245.6**	140.0	254.6	157.3	2,408.4
Provincial Tax Increases	2.0	1.0	12.0	5.0	(18.0)	27.0	**13.0**	18.0	41.0	38.0	139.0
Net Impact on Provincial Finances	**28.3**	**(1.2)**	**27.8**	**42.5**	**1,040.0**	**441.2**	**232.6**	**122.0**	**213.6**	**119.3**	**2,269.4**
COST PER FAMILY OF FOUR ($)	**193**	**(39)**	**126**	**235**	**632**	**198**	**896**	**480**	**330**	**157**	**355**

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOSALS
($ Millions)

Five-Year Totals 1982-83 — 1986-87

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	126.6	26.5	186.2	154.1	1,363.7	1,868.6	**219.5**	214.4	1,120.7	688.6	5,991.8
• E.P.F. Cash Cutback due to											
— Interaction with equalization proposal	2.7	0.9	4.9	3.6	22.5	—	**4.8**	—	—	—	39.6
— Budget Tax Changes	3.0	1.0	10.0	5.0	46.0	56.0	**22.0**	36.0	115.0	59.0	355.0
• Equalization Cutbacks	(42.0)	(32.0)	(48.0)	10.0	2,528	—	**582.0**	167.0	—	—	3,163
TOTAL FEDERAL CUTBACKS	**90.3**	**(3.6)**	**153.1**	**172.7**	**3,960.2**	**1,924.6**	**828.3**	**417.4**	**1,235.7**	**747.6**	**9,549.4**
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Cutbacks	90.3	(3.6)	153.1	172.7	3,960.2	1,924.6	**828.3**	417.4	1,235.7	747.6	9,549.4
Less: Increased Value of Tax Transfer	3.0	1.0	10.0	5.0	46.0	56.0	**22.0**	36.0	115.0	59.0	355.0
Provincial Transfer Payment Reductions	87.3	(4.6)	143.1	167.7	3,914.2	1,868.6	**806.3**	381.4	1,120.7	688.6	9,194.4
Provincial Tax Increases	20.0	3.0	72.0	34.0	118.0	469.0	**87.0**	108.0	306.0	286.0	1,503.0
Net Impact on Provincial Finances	**67.3**	**(7.6)**	**71.1**	**133.7**	**3,796.2**	**1,399.6**	**719.3**	**273.4**	**814.7**	**402.6**	**7,691.4**
COST PER FAMILY OF FOUR ($)	**464**	**(246)**	**327**	**752**	**2,331**	**636**	**2,786**	**1,098**	**1,335**	**551**	**1,227**

0533536
MARCH 19, 1982

THE HONOURABLE ALLAN J. MACEACHEN
MINISTER OF FINANCE
GOVERNMENT OF CANADA
OTTAWA

DEAR MR. MACEACHEN:

DURING OUR TELEPHONE CONVERSATION ON MONDAY, MARCH 15, 1982, I UNDERTOOK TO REVIEW MY TELEX TO YOU OF MARCH 3 AND TO PROVIDE YOU WITH SOME FURTHER COMMENTS ON THE POSITION MANITOBA HAS TAKEN ON THE FISCAL ARRANGEMENTS YOU HAVE PRESENTED TO THE PROVINCES.

WHILE I HAD HOPED THAT YOU WOULD CONVENE A FURTHER MEETING OF FINANCE MINISTERS TO DISCUSS THOSE PROPOSALS, I RECOGNIZE AND APPRECIATE THAT YOU HAVE MADE A PERSONAL EFFORT TO ENSURE THAT YOU ARE AWARE OF OUR PROVINCE'S CURRENT VIEWS. IN ADDITION, OF COURSE, WE HAVE WELCOMED YOUR OFFERS OF TRANSITIONAL EQUALIZATION ASSISTANCE, AS WELL AS FORGIVENESS OF EQUALIZATION ADJUSTMENTS RELATED TO POPULATION AS SPECIAL MEASURES WHICH WOULD REDUCE SOMEWHAT THE NEGATIVE IMPACT ON OUR PROVINCE OF THE EQUALIZATION AND EPF CHANGES YOU ARE NOW PROPOSING. HOWEVER, BECAUSE THE POTENTIAL LOSSES FACING US WOULD STILL BE EXTREMELY LARGE BOTH IN ABSOLUTE TERMS AND RELATIVE TO THOSE OF OTHER PROVINCES, WE REMAIN HOPEFUL THAT, IF YOU DECIDE TO PROCEED WITH THOSE PROPOSALS, YOU WILL CONSIDER SOME FURTHER ADJUSTMENTS, SUCH AS THE SUGGESTION CONTAINED IN MY TELEX OF MARCH 3 TO AUGMENT THE 1981/82 BASE FIGURE FOR TRANSITIONAL ADJUSTMENT CALCULATIONS.

INSOFAR AS OUR GOVERNMENT'S OVERALL POSITION ON THE FISCAL ARRANGEMENTS IS CONCERNED, I CAN ADVISE YOU THAT THE TEXT OF MY TELEX OF MARCH 3 WAS REVIEWED IN CABINET BEFORE IT WAS FORWARDED TO YOU AND CONTINUES TO REFLECT OUR VIEWS.

WITH RESPECT TO THE FIVE-PROVINCE AVERAGE ITSELF, WE HAVE INDICATED ALREADY THAT WE BELIEVE IT APPEARS SUPERIOR TO THE ONTARIO STANDARD PROPOSED IN YOUR BUDGET LAST NOVEMBER. HOWEVER, WE REMAIN CONCERNED THAT NEITHER APPROACH HAS BEEN SUBJECTED TO SUFFICIENT JOINT ANALYSIS BY OUR GOVERNMENTS TO PERMIT A SATISFACTORY EVALUATION OF ITS RELATIVE MERITS. MORE IMPORTANT, WE FEEL THAT NEITHER IS CONSISTENT WITH THE EQUALIZATION PRINCIPLE WHICH IS SOON TO BECOME A PART OF THE RENEWED CANADIAN CONSTITUTION.

FOR US, THE CURRENT, FULL TEN-PROVINCE NATIONAL AVERAGE FORMULA REMAINS THE PREFERRED OPTION, AND WE WOULD STRONGLY SUPPORT LEGISLATION TO EXTEND IT FOR AT LEAST AN INTERIM PERIOD UNTIL THERE HAS BEEN TIME FOR AN ADEQUATE STUDY OF ALTERNATIVES. WE WOULD ALSO PREFER TO SEE THE EPF PAYMENTS ARRANGEMENTS EXTENDED UNCHANGED FOR THE TIME BEING. OUR SECOND PREFERENCE, AS I HAVE INDICATED TO YOU BEFORE, WOULD BE AN EXTENSION ALONG THE LINES OF THE TEN-PROVINCE COMPROMISE PROPOSAL WHICH WAS PUT FORWARD AT THE FIRST MINISTERS' CONFERENCE IN EARLY FEBRUARY.

I HOPE THESE ADDITIONAL COMMENTS WILL BE HELPFUL TO YOU. PLEASE LET ME KNOW IF YOU WISH TO DISCUSS OUR POSITION FURTHER.

SHOULD YOU HAVE TIME FOR A BRIEF MEETING ON THIS SUBJECT WHEN YOU ARE IN WINNIPEG THIS WEEKEND, I WOULD BE PLEASED TO HAVE OUR STAFFS TALK ABOUT POSSIBLE ARRANGEMENTS.

HONOURABLE VIC SCHROEDER
MINISTER OF FINANCE
PROVINCE OF MANITOBA

March 3, 1982.

Honourable Allan J. MacEachen
Minister of Finance
Government of Canada
OTTAWA, Ontario

Dear Mr. MacEachen:

Thank you for your response to my telex of February 24, 1982, in which I summarized a number of my concerns about the Fiscal Arrangements negotiations and expressed the hope that you would convene a further conference of Finance Ministers in an effort to reach an accommodation on the outstanding issues before presenting legislation to Parliament.

I continue to believe such a meeting would be worthwhile and clearly in the best interests of improved federal-provincial relations.

One of my primary reasons for suggesting such a meeting is, of course, the fact that federal and provincial Finance Ministers have not had any real opportunity to discuss the advantages and disadvantages of a five-province average standard for equalization relative to the single-province Ontario standard which you proposed in your Budget and the full, ten-province national average standard currently in effect. While our officials had a one-day meeting last week at which the subject was explored on a general and preliminary basis, I do not feel that in any way constitutes adequate consultation on the implications of a formula which, if it were implemented, would represent a fundamental change in the equalization system which has served Canada extremely well for so many years.

As I indicated in my telex of February 24, although the five-province average appears to us to be superior to the Ontario standard proposal at this stage, neither of those two options, in our view, represents the most appropriate formula for giving effect to the equalization principle which will soon become an integral part of

Canada's renewed constitution. We feel there simply has not been enough work completed on either option to permit a fully satisfactory assessment of the relative merits of the five-province and Ontario standards and, until there has, we believe it would be undesirable and imprudent to do away with the full, ten-province national average formula now in effect. We believe it is a contradiction to argue that a formula which excludes nine of the ten provinces or even five of the ten can be called "representative", especially when one of the provinces excluded is now by far the wealthiest and fastest growing.

It was precisely for the reasons I have cited -- that is, to permit adequate time for a satisfactory review of the options and, hopefully, to achieve a reasonable measure of provincial agreement -- that Manitoba has indicated that an interim extension of the present arrangements, unchanged, would be our first preference or, failing that, that our second preference would be an interim extension under the terms of the compromise proposal put forward by all ten provinces at the First Ministers' Conference early in February. You will recall that the ten-province compromise proposal would have limited overall growth in federal transfer payments to provinces in 1982/83 to the 12% annual average figure for the next five years to which the Prime Minister referred a number of times at the First Ministers' Conference.

Turning specifically to the five-province average option, I noted in my February 24 telex that calculations prepared by your own department indicated that this alternative would produce a payments total over the next five years which would be some $858 million less than the Ontario standard for all provinces. For Manitoba alone, the five-province average would produce equalization payments which would be $58 million lower, even with the added transitional payments and other modifications included in the five-province average calculations.

At the same time, we recognize the stability advantage of the five-province average relative to a single province and note that calculations of Established Programs cash payments for the next five years show an increase which appears to offset the equalization shortfall relative to the Ontario standard for all provinces except Quebec. The difficulty with the E.P.F. forecasts, of course, is that you and your colleagues have indicated your intention to modify, if not terminate the E.P.F. system before the end of the next five year Fiscal Arrangements period.

We also appreciate the fact, as I indicated in my February 24 telex, that, should you decide to proceed with the five-province standard, you intend to build a three-year transitional adjustment arrangement into the formula to smooth the change-over to the new system for Manitoba, in recognition of the fact that your Fiscal Arrangements proposals would affect our province more severely than any other.

We appreciate as well your indication in your telex of March 2 that you are prepared to forego negative post-census population adjustments in respect of equalization payments for 1980/81 and 1981/82. In recent discussions of this subject, members of my staff have indicated to your officials that we would hope this change would be reflected in the base used for the transitional adjustment calculations. Because this would result in a potential drop-off in our equalization cash flow after year three of the transitional arrangements, our staff also suggested adding a fourth year to those arrangements to maintain continuity in payments. I hope you will give favourable consideration to these suggestions should you decide to proceed with the five-province average option.

However, Manitoba's basic position remains unchanged. We strongly believe that the current set of fiscal arrangements should be extended without major modifications unless and until there has been an adequate joint assessment of the implications of alternatives and there is a reasonble measure of federal-provincial agreement on any improvements which may be required.

The Fiscal Arrangements are too important to Canada -- to vital public services across the country, and to the ongoing relations among our governments -- to be subjected to fundamental changes such as those now being proposed after only minimal study and with the apparent concurrence of only a few provinces.

Again, in recognition of the importance of the Fiscal Arrangements, I would urge you to convene a further meeting of Finance Ministers before you submit legislative proposals to Parliament.

Yours sincerely,

Vic Schroeder
Minister of Finance

NOTE: The text of this letter was sent by telex at 2:25 p.m. CST on March 3, 1982.

.
FIN FPR WPG

FINTB OTT

MARCH 2, 1982

THE HONOURABLE VIC SCHROEDER
MINISTER OF FINANCE
GOVERNMENT OF MANITOBA

FPR 16
DEAR MR SCHROEDER:
I WRITE IN REPLY TO YOUR TELEX OF FEBRUARY 24 WHEREBY YOU COMMENT UPON CONSULTATIONS TO DATE ON REVISION OF FEDERAL PROVINCIAL FISCAL ARRANGEMENTS.

I NOTED YOUR APPRECIATION FOR THE SUGGESTION MADE BY MY OFFICIALS THAT THE TRANSITIONAL ARRANGEMENT FOR MANITOBA AND ANY OTHER ELIGIBLE PROVINCE COULD BE EXTENDED FOR THREE YEARS, IN CONJUNCTION WITH ADOPTION OF THE REPRESENTATIVE AVERAGE STANDARD APPROACH TO EQUALIZATION. YOU ALSO INDICATED THAT, AT THIS STAGE, YOU CONSIDER THIS APPROACH SUPERIOR TO MY INITIAL BUDGET PROPOSAL, BUT DID NOT STATE WHETHER THE GOVERNMENT OF MANITOBA WOULD BE PREPARED TO SUPPORT IT. I FINALLY NOTED THE CONCERN YOU EXPRESSED ABOUT EQUALIZATION RECOVERIES THAT MIGHT HAVE TO BE MADE FOR FISCAL YEARS 1980-81 AND 1981-82, AS A RESULT OF REVISIONS TO POPULATION DATA ARISING FROM THE 1981 CENSUS.

FOLLOWING A REVIEW OF THE MATTER WITH MY COLLEAGUES, I HAVE BEEN AUTHORIZED TO INFORM YOU THAT THE GOVERNMENT OF CANADA WOULD BE PREPARED TO FOREGO THE RECOVERY OF ANY PORTION OF EQUALIZATION PAYMENTS MADE TO MANITOBA FOR 1980-81 AND 1981-82, WHERE SUCH RECOVERY IS ATTRIBUTABLE TO REVISION OF POPULATION DATA ARISING FROM THE 1981 CENSUS, ON THE CLEAR UNDERSTANDING THAT THE GOVERNMENT OF MANITOBA, WITH THIS FURTHER CONCESSION, WOULD BE ABLE TO ENDORSE PUBLICLY THE EQUALIZATION SYSTEM THE GOVERNMENT OF CANADA IS NOW PROPOSING FOR THE 1982-87 PERIOD.

I WOULD APPRECIATE RECEIVING A TELEX BY THE END OF THE AFTERNOON, ON MARCH 3, CONFIRMING THAT THIS ARRANGEMENT IS ACCEPTABLE TO YOUR GOVERNMENT, TO BE FOLLOWED BY A LETTER WHICH IT WOULD BE MY INTENTION TO MAKE PUBLIC.

THE HONOURABLE ALLAN J MACEACHEN
DEPUTY PRIME MINISTER AND MINISTER OF FINANCE
OTTAWA

8:10 P M

FIN FPR WPG

FINTB OTT

MANITOBA
INFORMATION SERVICES BRANCH
ROOM 29, LEGISLATIVE BUILDING
WINNIPEG, MANITOBA R3C 0V8
PHONE: (204) 944-3746

DATE: February 26, 1982

NEWS SERVICE

SCHROEDER CALLS
FOR FINANCE MEETING

Finance Minister Vic Schroeder has called for a further federal-provincial Conference of Finance Ministers before the federal government goes ahead with plans to cut back health, post-secondary education, and equalization payments to the provinces starting in April.

In a telex to federal Finance Minister Allan MacEachen dated February 24, Mr. Schroeder stated: "I feel strongly that it would be in the best interests of federal-provincial relations to make every effort to seek an accommodation on this admittedly-difficult issue.... In order to continue the consultative process, I would urge you to convene a meeting of finance ministers and treasurers as soon as possible -- and certainly before any fiscal arrangements legislation is tabled in the House. While there is no guarantee that such a meeting would produce agreement, I feel that at least one more attempt should be made."

Mr. Schroeder had also proposed a finance ministers' meeting in a telex to Mr. MacEachen on February 18. However, there has been no reply to that telex and, Mr. Schroeder said, there are now indications the federal minister may wish to table cutback legislation in the House of Commons as early as next week. In fact, Mr. Schroeder noted, the federal minister had asked provinces for an indication of their positions by February 24 in order that he could finalize his legislative plans.

Mr. Schroeder's telex also outlined specific concerns about federal cutback proposals, including options for replacing the current method of calculating equalization payments, based on the full ten province national average, with a formula based on the taxing capacity of a single province (Ontario) or of five of the ten provinces.

-30-

FEBRUARY 25, 1982.

TO PROVINCIAL MINISTERS OF FINANCE AND TREASURERS.

FOLLOWING, FOR YOUR INFORMATION, IS THE TEXT OF A TELEX WHICH WAS SENT YESTERDAY AFTERNOON, FEBRUARY 24, TO THE HONOURABLE A J MACEACHEN BY THE HONOURABLE V SCHROEDER:

FEBRUARY 24, 1982

HONOURABLE ALLAN J MACEACHEN
MINISTER OF FINANCE
GOVERNMENT OF CANADA

DEAR MR MACEACHEN

ON FEBRUARY 18, I SENT YOU A TELEX ADVISING YOU OF A NUMBER OF MY CONCERNS ABOUT THE STATUS AND DIRECTION OF THE FISCAL ARRANGEMENTS NEGOTIATIONS.

UNFORTUNATELY, SOME OF THOSE CONCERNS HAVE NOW BEEN HEIGHTENED AS A RESULT OF THE MEETINGS OF FEDERAL AND PROVINCIAL FINANCE OFFICIALS WHICH WERE HELD IN TORONTO ON MONDAY, FEBRUARY 22.

AS I UNDERSTAND IT, THE PRINCIPAL CONCLUSIONS TO BE DRAWN BY PROVINCES FROM THOSE MEETINGS WERE AS FOLLOWS:

1 - THERE ARE NO PLANS AT THE MOMENT FOR ANOTHER MEETING OF FEDERAL AND PROVINCIAL FINANCE MINISTERS AND TREASURERS IN AN EFFORT TO ACHIEVE AN INTERIM AGREEMENT.

2 - THE ''FIVE PROVINCE STANDARD'' AS CURRENTLY PROJECTED WOULD NOT PRODUCE EQUALIZATION PAYMENTS WHICH WERE SIGNIFICANTLY HIGHER THAN THOSE WHICH WOULD RESULT FROM THE APPLICATION OF THE ONTARIO STANDARD -- AND CERTAINLY NOT THE ONE BILLION DOLLARS IN ADDITIONAL SUPPORT OVER THE NEXT FIVE YEARS WHICH I THINK MOST PROVINCIAL MINISTERS BELIEVED YOU WERE OFFERING DURING OUR DISCUSSIONS AT THE FIRST MINISTERS CONFERENCE. ACCORDING TO FEDERAL DEPARTMENT OF FINANCE CALCULATIONS CIRCULATED AT THE FEBRUARY 22 OFFICIALS MEETING, THE ''FIVE PROVINCE STANDARD'' FORMULA WOULD PRODUCE ABOUT 858 MILLION DOLLARS LESS IN ENTITLEMENTS OVER THE NEXT FIVE YEARS THAN THE ONTARIO STANDARD AS PRESENTLY ESTIMATED.

3 - WHILE THE SAME SET OF FEDERAL CALCULATIONS INDICATED AN OFFSETTING INCREASE IN ESTABLISHED PROGRAMS CASH PAYMENTS BECAUSE OF THE REDUCED EQUALIZATION, THE PROVINCES ARE LEGITIMATELY CONCERNED THAT 5-YEAR FORECASTS OF EPF PAYMENTS ARE OF QUESTIONABLE VALIDITY, GIVEN YOUR INDICATION IN THE BUDGET, AND GIVEN MORE RECENT COMMENTS BY THE SECRETARY OF STATE AND THE MINISTER OF NATIONAL HEALTH AND WELFARE, THAT SIGNIFICANT CHANGES AFFECTING EPF PAYMENTS WILL BE PROPOSED FOR AS EARLY AS 1983/84 AND 1984/85, ONE OR TWO YEARS FROM NOW.

4 - THERE CONTINUES TO BE MAJOR CONCERN AND UNCERTAINTY ABOUT THE IMPLICATIONS OF THE 1981 CENSUS RESULTS FOR EQUALIZATION AND EPF PAYMENTS. IN THIS CONNECTION, I WAS ENCOURAGED TO LEARN THAT OFFICIALS OF YOUR DEPARTMENT INDICATED ON MONDAY THAT THEY WOULD PASS ON TO YOU A PROVINCIAL SUGGESTION THAT YOUR GOVERNMENT NOT PROCEED WITH NEGATIVE RETROACTIVE PAYMENT ADJUSTMENTS IN ORDER TO AVOID COMPOUNDING ALREADY-SEVERE BUDGETARY PRESSURES IN THE EQUALIZATION RECIPIENT PROVINCES.

I UNDERSTAND YOUR OFFICIALS ALSO STATED ON MONDAY THAT YOU WOULD FIND IT HELPFUL TO RECEIVE, BY WEDNESDAY, FEBRUARY 24, AN INDICATION OF THE PROVINCES' POSITIONS WITH RESPECT TO THE VARIOUS TRANSFER PAYMENT OPTIONS.

AS I HAVE INDICATED ON A NUMBER OF OCCASIONS, MANITOBA'S FIRST PREFERENCE CONTINUES TO BE AN EXTENSION OF THE CURRENT SET OF FISCAL ARRANGEMENTS FOR AT LEAST ANOTHER YEAR, TO ALLOW ADEQUATE TIME FOR REVIEW OF THE VARIOUS PROPOSALS AND IDEAS WHICH HAVE BEEN PUT FORWARD, AS WELL AS OTHER OPTIONS WHICH MAY BE ADVANCED IN DUE COURSE.

FAILING THAT, OUR SECOND PREFERENCE WOULD BE AN EXTENSION ALONG THE LINES OF THE TEN-PROVINCE COMPROMISE PROPOSAL WHICH WAS PRESENTED TO YOU DURING THE FIRST MINISTERS CONFERENCE -- OR A MODIFIED FORM OF THAT PROPOSAL. YOU WILL RECALL THAT THE PROVINCIAL CONSENSUS PROPOSAL CALLED FOR AN INCREASE OF 12 PERCENT IN TRANSFER PAYMENTS IN 1982/83 IN LINE WITH THE FORECAST ANNUAL AVERAGE FOR THE NEW ARRANGEMENTS WHICH THE PRIME MINISTER CITED IN HIS OPENING STATEMENT. I WAS INTERESTED TO NOTE THAT THE PRIME MINISTER ALSO REFERRED TO THE SAME PERCENTAGE IN HIS CLOSING REMARKS, STATING:

> ''IF THERE IS ANY CUTTING TO THE UNIVERSITIES OR TO POST-SECONDARY EDUCATION, IT WILL MEAN THAT THE PROVINCES ARE RE-ARRANGING THEIR PRIORITIES AND OUT OF THE 12 PERCENT GENERAL INCREASE THAT WE ARE GIVING THE PROVINCES IN TRANSFER PAYMENTS OVER THE NEXT FIVE YEARS, 12 PERCENT A YEAR, THEY WILL HAVE CHOSEN TO SPEND LESS ON EDUCATION AND MORE ON SOMETHING ELSE.''

THE PROVINCES HAVE, OF COURSE, EMPHASIZED THAT PROJECTED PAYMENTS IN 1982/83 WOULD GROW BY SUBSTANTIALLY LESS THAN 12 PERCENT, AND THAT CONCLUSION SEEMS TO HAVE BEEN REINFORCED BY INFORMATION RELEASED WITH THE FEDERAL MAIN ESTIMATES FOR THE COMING YEAR.

THE EXTENSION OF THE CURRENT ARRANGEMENTS WOULD ALLOW THE FEDERAL AND PROVINCIAL GOVERNMENTS THE NECESSARY TIME TO REVIEW OPTIONS FOR LONGER TERM CHANGES, SUCH AS THE IDEA OF A ''FIVE-PROVINCE STANDARD'' FOR EQUALIZATION, OR THE SINGLE PROVINCE, ONTARIO STANDARD PROPOSED IN YOUR NOVEMBER BUDGET. AT THIS STAGE, THE FIVE-PROVINCE IDEA APPEARS TO US TO BE SUPERIOR TO THE ONTARIO STANDARD PROPOSAL, BUT WE WEEL XXX FEEL THERE SIMPLY HAS NOT BEEN ENOUGH WORK COMPLETED ON EITHER OPTION TO PERMIT A FULLY SATISFACTORY ASSESSMENT OF THEIR RELATIVE MERITS.

I SHOULD EMPHASIZE THAT I VERY MUCH APPRECIATE THE INDICATION BY YOUR DEPARTMENT THAT THE TRANSITIONAL ADJUSTMENT ARRANGEMENT FOR MANITOBA AND ANY OTHER ELIGIBLE PROVINCE WOULD BE EXTENDED FOR THREE YEARS RATHER THAN ONE UNDER THE ''FIVE-PROVINCE STANDARD'' IDEA. I WOULD HOPE THAT AT LEAST A THREE-YEAR ARRANGEMENT WOULD APPLY IN RESPECT OF THE ONTARIO STANDARD OPTION AS WELL.

I HOPE THESE COMMENTS WILL BE HELPFUL TO YOU. I FEEL STRONGLY THAT IT WOULD BE IN THE BEST INTERESTS OF FEDERAL PROVINCIAL RELATIONS TO MAKE EVERY EFFORT TO SEEK AN ACCOMMODATION ON THIS ADMITTEDLY-DIFFICULT ISSUE. SUCH AN ACCOMMODATION WOULD FACILITATE PARLIAMENT'S CONSIDERATION OF THE ENSUING LEGISLATIVE AMENDMENTS AS WELL.

IN ORDER TO CONTINUE THE CONSULTATIVE PROCESS, I WOULD URGE YOU TO CONVENE A MEETING OF FINANCE MINISTERS AND TREASURERS AS SOON AS POSSIBLE -- AND CERTAINLY BEFORE ANY FISCAL ARRANGEMENTS LEGISLATION IS TABLED IN THE HOUSE. WHILE THERE IS NO GUARANTEE THAT SUCH A MEETING WOULD PRODUCE AGREEMENT, I FEEL THAT AT LEAST ONE MORE ATTEMPT SHOULD BE MADE.

I WOULD BE PREPARED TO MEET WITH YOU AND OUR COLLEAGUES AT ANY DATE AND AT ANY LOCATION WHICH MAY BE CONVENIENT FOR YOU IN THE NEXT FEW WEEKS

I WILL LOOK FORWARD TO HEARING FROM YOU ON THIS MATTER IN THE NEAR FUTURE.

HONOURABLE VIC SCHROEDER
MINISTER OF FINANCE
GOVERNMENT OF MANITOBA

MANITOBA
INFORMATION SERVICES BRANCH
ROOM 29, LEGISLATIVE BUILDING
WINNIPEG, MANITOBA R3C 0V8
PHONE: (204) 944-3746
DATE: February 19, 1982

NEWS SERVICE

MORE TIME NEEDED FOR
FISCAL TALKS: SCHROEDER

Finance Minister Vic Schroeder has called on his federal counterpart, Allan MacEachen, not to proceed with plans to bring in new legislation in the next few weeks to authorize cutbacks in payments to the provinces for health, higher education and equalization starting in April.

Mr. Schroeder made his request in a telex which urged the federal minister to give serious consideration instead to the compromise proposal worked out and supported by all provinces for extending the current transfer payment system for another year, with a payment growth rate of 12 per cent. Mr. Schroeder said that the provincial consensus proposal was "a sound basis for an interim agreement which would be both equitable and prudent."

Commenting on the Economic Council of Canada's Report on Fiscal Arrangements -- "Financing Confederation, Today and Tomorrow" -- which was released in Ottawa February 17, Mr. Schroeder stated: "In my view, the merits of the interim arrangement proposed by the provinces are all the more evident in light of the full report of the Economic Council on Fiscal Arrangements . . . . In addition to advising against transfer payment cutbacks, the council's report also stressed the necessity of adequate federal-provincial consultation and an important degree of public and government support in advance of any significant changes to the fiscal arrangements - something which has not been possible up to now, for a variety of reasons."

The minister noted that the initial meeting of officials to follow up the first ministers' discussions of fiscal arrangements will not be held until Monday, February 22, in Toronto. And even that meeting could be restricted to a discussion of a federal idea for modifying the equalization formula by using a five-province "average" for calculating payments instead of the full 10-province national average now used or the single province (Ontario) standard proposed in the November federal budget. Mr. Schroeder asked Mr. MacEachen to make certain federal officials have a mandate to discuss at least those proposals and ideas including the ten provinces' compromise plan, which were raised at the First Minister's Conference on the Economy.

-more-

In addition, he stated: "I also believe it is essential for finance ministers and treasurers to continue to meet to try to work out a satisfactory set of interim arrangements and, ultimately, longer-term modifications." He expressed concern that the federal minister might decide not to meet again with his provincial colleagues before proceeding with his cutback plans if Ottawa is unsuccessful in winning unqualified support for its five-province standard idea for the equalization formula.

Manitoba would be hurt most by the federal transfer payment cutbacks which Mr. MacEachen proposed in his November, 1981 budget. Current estimates place the cutback for Manitoba in excess of $150 million in the 1982-83 fiscal year which begins in April, and the total loss over the next five years from 1982-83 to 1986-87 at around $1 billion -- the equivalent of more than $3,600 for an average Manitoba family.

-30-

CNCP SAFT

FIN FPR WPG
□97587589
□001
MA
FEBRUARY 18, 1982

HONOURABLE ALLAN J MACEACHEN
MINISTER OF FINANCE
GOVERNMENT OF CANADA
OTTAWA, ONTARIO

DEAR MR MACEACHEN

DURING THE FIRST MINISTERS' DISCUSSIONS OF THE FISCAL ARRANGEMENTS IN OTTAWA TWO WEEKS AGO, YOU PUT FORWARD THE GENERAL OUTLINE OF AN IDEA FOR A FIVE PROVINCE ''AVERAGE'' STANDARD TO REPLACE THE SINGLE PROVINCE ONTARIO STANDARD PROPOSED IN YOUR NOVEMBER BUDGET, AND THE FULL NATIONAL AVERAGE STANDARD NOW IN EFFECT, AS A BASIS FOR CALCULATING EQUALIZATION ENTITLEMENTS STARTING IN 1982/83. AT THE SAME CONFERENCE, THE PRIME MINISTER DESCRIBED CERTAIN FEATURES OF POSSIBLE MODIFIED FINANCING ARRANGEMENTS FOR POST-SECONDARY EDUCATION AND HEALTH CARE.

EARLIER IN THE SAME MEETING, ALL TEN PROVINCES PRESENTED A JOINT COMPROMISE PROPOSAL WHICH, IF ACCEPTED, WOULD PROVIDE NEEDED TIME FOR FURTHER DISCUSSION OF POSSIBLE LONGER TERM MODIFICATIONS TO THE FISCAL ARRANGEMENTS, SUCH AS THOSE YOU AND THE PRIME MINISTER PROPOSED, WHILE ENSURING THAT TOTAL FEDERAL CASH TRANSFERS TO THE PROVINCE IN 1982/83 WOULD INCREASE AT A RATE CONSISTENT WITH THE 12 PERCENT ANNUAL AVERAGE YOU HAVE PROJECTED FOR THE NEXT FIVE YEARS.

IN MY VIEW, THE MERITS OF THE INTERIM ARRANGEMENT PROPOSED BY THE PROVINCES ARE ALL THE MORE EVIDENT IN LIGHT OF THE FULL REPORT OF THE ECONOMIC COUNCIL ON FISCAL ARRANGEMENTS WHICH WAS RELEASED YESTERDAY. IN ADDITION TO ADVISING AGAINST TRANSFER PAYMENT CUTBACKS, THE COUNCIL'S REPORT ALSO STRESSED THE NECESSITY OF ADEQUATE FEDERAL PROVINCIAL CONSULTATION AND AN IMPORTANT DEGREE OF PUBLIC AND GOVERNMENT SUPPORT IN ADVANCE OF ANY SIGNIFICANT CHANGES TO THE FISCAL ARRANGEMENTS -- SOMETHING WHICH HAS NOT BEEN POSSIBLE UP TO NOW, FOR A VARIETY OF REASONS. THE COUNCIL NOTED, QUITE CORRECTLY, THAT ''THE ISSUES THAT NEED TO BE RESOLVED ARE COMPLEX, AND MAJOR GAPS EXIST IN THE RELEVANT INFORMATION AND ANALYSIS.''

I NOTE THAT YOUR COLLEAGUE, THE SECRETARY OF STATE, HAS ASKED PROVINCIAL EDUCATION MINISTERS TO GIVE HIM A FORMAL RESPONSE, BY MARCH 3, TO THE PRIME MINISTER'S EPF PROPOSALS. IN MY VIEW, THAT REQUEST APPEARS PREMATURE, IF NOT UNREALISTIC, IN VIEW OF ALL THE RELATED ISSUES WHICH HAVE NOT BEEN CLARIFIED OR RESOLVED.

WITH BARELY SIX WEEKS REMAINING IN THE CURRENT FISCAL YEAR, OUR OFFICIALS HAVE NOT YET DISCUSSED ANY OF THE NEW PROPOSALS OR IDEAS PUT FORWARD AT THE FIRST MINISTERS' CONFERENCE IN DETAIL. WHILE I UNDERSTAND THERE IS TO BE A FEDERAL PROVINCIAL FINANCE OFFICIALS' MEETING IN TORONTO ON MONDAY, FEBRUARY 22ND, I HAVE BEEN ADVISED THAT YOUR STAFF APPARENTLY MAY HAVE A MANDATE TO DISCUSS ONLY THE FIVE PROVINCE AVERAGE IDEA AND NOT THE FULL RANGE OF PROPOSALS AND IDEAS NOW ON THE TABLE. I WOULD HOPE YOU WILL EXTEND YOUR OFFICIALS' MANDATE IN ORDER TO PERMIT A MORE THOROUGH REVIEW OF OPTIONS.

I ALSO BELIEVE IT IS ESSENTIAL FOR FINANCE MINISTERS AND TREASURERS TO CONTINUE TO MEET TO TRY TO WORK OUT A SATISFACTORY SET OF INTERIM ARRANGEMENTS AND, ULTIMATELY, LONGER TERM MODIFICATIONS. I FEEL IT WOULD BE REGRETTABLE IF, AS HAS BEEN SUGGESTED, NO FURTHER MINISTERIAL MEETINGS WERE TO BE HELD ON THE FISCAL ARRANGEMENTS BECAUSE YOU OR YOUR STAFF WERE UNABLE TO IDENTIFY AN IMMEDIATE CONSENSUS IN FAVOUR OF AN IDEA WHICH IS NOT YET A PROPOSAL OR WERE UNWILLING TO EXPLORE THE IMPLICATIONS OF THE ACTUAL PROPOSALS WHICH ARE ON THE TABLE.

IN THIS CONNECTION, I WOULD URGE THAT YOU GIVE SERIOUS CONSIDERATION ONCE AGAIN TO THE PROVINCIAL CONSENSUS PROPOSAL AS A SOUND BASIS FOR AN INTERIM AGREEMENT WHICH WOULD BE BOTH EQUITABLE AND PRUDENT. IN MY VIEW, THE KIND OF STRAIGHTFORWARD INTERIM ARRANGEMENT PROPOSED BY THE PROVINCES REPRESENTS THE ONLY REALISTIC OPTION WHICH REMAINS OPEN FOR THE SHORT TERM. THERE IS SIMPLY NOT ENOUGH TIME LEFT IN THE FISCAL YEAR FOR AN ADEQUATE ASSESSMENT OF THE IMPLICATIONS OF MAJOR EQUALIZATION FORMULA CHANGES, INCLUDING EITHER THE PROPOSAL FOR A SINGLE PROVINCE STANDARD OR THE IDEA OF A FIVE PROVINCE STANDARD, OR FOR A REASONABLE EXAMINATION OF THE PRIME MINISTER'S EPF PROPOSAL.

IN THE HOPE THAT YOU REMAIN OPEN TO A CONSIDERATION OF COMPROMISE OPTIONS, I WILL INSTRUCT THE MANITOBA STAFF ATTENDING MONDAY'S MEETING IN TORONTO TO RAISE WITH YOUR OFFICIALS BOTH THE TEN PROVINCE CONSENSUS PROPOSAL AND THE TIMING OF ANOTHER CONVERENCE OF FINANCE MINISTERS.

HONOURABLE VICTOR SCHROEDER
MINISTER OF FINANCE
GOVERNMENT OF MANITOBA

CC ALL PROVINCIAL MINISTERS OF FINANCE AND TREASURERS

DOCUMENT: 800-16/ 031

FEDERAL-PROVINCIAL CONFERENCE
OF FIRST MINISTERS ON THE ECONOMY

JOINT PROVINCIAL STATEMENT ON FISCAL ARRANGEMENTS

Ottawa
February 1982

February 4, 1982

Joint Provincial Statement on

Fiscal Arrangements

Mr. Chairman:

As you know, the provinces have proposed a temporary one-year extension of the current Fiscal Arrangements.

The provinces continue to believe that such an extension is absolutely essential because of the flaws in the initial federal proposals - flaws which will undercut the capacity of provinces in general and particularly the have-not provinces to maintain existing programming.

More time is required to redress those flaws and to examine some of the other options on the table.

Therefore, we are proposing a one-year extension of the current system subject to an overall cap of 12% on total federal cash payments, equalization and EPF combined. This would limit the federal expenditure obligation to $11.5 billion in 1982-83.

The 12% cap means that federal expenditures on these important transfers will increase by less than the 13.5% growth rate in total federal expenditures and less than inflation as reflected by the 1982 personal income tax indexing factor of 12.2%. Moreover and perhaps most importantly from the federal government's viewpoint, it is in line with the Prime Minister's commitment at the opening of this Conference.

Secondly, the cap would be applied on a per capita basis. In this manner, all provinces would share in the costs of the cut on the same basis as their share of the population.

Thirdly, Alberta and British Columbia are prepared to forego their "fiscal dividend" on the EPF tax transfer for 1982-83 and apply that money to compensate those provinces qualifying for equalization which face reductions in their federal EPF cash and equalization payments as a result of Census population adjustments. This is a one time transitional adjustment recognizing that there must be some means negotiated whereby the adjustments related to population for those adversely affected can be phased in under the new arrangments.

This latter measure guarantees those provinces adversely affected by population adjustments a significant degree of compensation covering about 90% of their estimated losses.

This measure illustrates the willingness of the provinces to seek an equitable set of transitional arrangements without imposing all the costs on the federal government.

The saving to the federal government under this provincial compromise proposal is estimated at $374 million.

In summary, this provincial compromise proposal:

- provides adequate time to review major changes to the Fiscal Arrangements and their impacts on programs and regions without unrealistic and arbitrary time frames;

- provides greater savings consistent with federal government's 1980 Budget target.

.../3

- provides a growth rate in federal transfer payments expenditures commensurate with the Prime Minister's commitment at the opening of this Conference and less than the growth rate in other federal expenditure (16.1%) and less than inflation as measured by the personal income tax indexing factor;

- provides compensation to provinces hard hit by reduction in federal cash payments arising from census population adjustments;

- provides provinces with a more realistic level of federal cash transfers to facilitate maintenance of existing programs.

Thank you Mr. Chairman.

ILLUSTRATION OF CURRENT SYSTEM WITH POPULATION ADJUSTMENTS, 12% CAP, AND INTERIM COMPENSATION

1982-83 ($ millions)

	POPULATION ADJUSTMENTS							
	Current system with population adjustments	Reduction by 12% cap	Net	Losses associated with population adjustment	Compensation: financed by contributions, of Alberta & B.C.**	1982-83 cash Payments after 12% cap, population adjustments, compensation and contribution	Present federal proposal***	Difference vs federal proposal
	1982-83							
NFLD	685	6	679	51	45	724	709	+ 15
PEI	157	1	156	6	6	162	160	+ 2
NS	859	9	850	38	34	884	860	+ 24
NB	704	7	697	50	44	741	721	+ 20
QUE	4227	69	4158	-	-	4158	3471	+687
ONT	2579	93	2486	23		2486	2314	+172
MAN	782	11	771	22	20	791	658	+133
SASK	335	11	324	5		324	307	+ 17
ALTA	644	25	619	-	-118	501	432	+ 69
BC	790	30	760	-	- 31	729	655	+ 74
TOTAL	11762	262	11500*	195	0000	11500	10291	+1209

* "Target" based on 1981/82 cash escalated at 12%.

** Contribution equivalent to "crossover" or "fiscal dividend"

*** Without population adjustments; with population adjustment, the federal proposal would cost $10.403 Million, that is $112 Million more.

MANITOBA
INFORMATION SERVICES BRANCH
ROOM 29, LEGISLATIVE BUILDING
WINNIPEG, MANITOBA R3C 0V8
PHONE: (204) 944-3746

DATE: February 5, 1982

NEWS SERVICE

PLANNED FEDERAL CUTBACKS HIT 'HAVE NOT' PROVINCES

\- - -

Pawley Wants Principle Of Equalization Upheld

OTTAWA (Special) -- Planned federal cutbacks in transfer payments will mean losses to provinces of $11.1 billion over the next five years, with most of the share of the cuts borne by the "have-not" provinces -- and of these, Manitoba will be hardest hit of all, Premier Howard Pawley said here February 2.

He warned the First Ministers Conference on the Economy that with less than two months remaining before the end of the present federal-provincial fiscal agreements, the provinces face the "disturbing possibility" that Ottawa will press ahead with its new proposals -- and impose them unilaterally -- without regard to the near-unanimous opposition of the provinces and without an adequate study of the implications of this planned step.

Of greatest concern, he said, was the proposal to change the equalization formula in a fundamental way. This, he said was contrary to the "strong and permanent national commitment to equalization" which is in the process of being enshrined in Canada's renewed constitution.

The proposed federal cuts, he said, will damage such programs as health and post secondary education, or add to larger provincial deficits, or mean higher provincial taxes, or a combination of all three.

He released figures showing that:

. Close to two-thirds of the proposed cuts over the next five years would come from less-well-off provinces -- provinces which in total account for barely 40 per cent of the national population and well under 40 per cent of Canada's output.

. For a family of four, the cuts would amount to $1,500 on average over the next five years, but distribution would vary widely. The average would be less than $750 per family in the "have" provinces, and more than $2,400 in the "have-nots," with the loss to Manitoba being more than $3,600 -- by far the largest of any province.

"This result", he said, "is totally inconsistent with sound economic and fiscal management. It means, quite simply, that provinces with the greatest need for added development activity would be set back even further in the ability to help finance the various measures necessary to encourage it.

-more-

"I cannot believe this was the result that the federal government intended when it proposed modifications to the transfer payment system."

He said he welcomed Ottawa's offer of transitional assistance to Manitoba to offset a small part of the province's nearly $1 billion loss over the next five years under the proposed arrangements.

However, he urged that the current fiscal arrangements be extended beyond March 31 until a substantial measure of provincial agreement can be reached on alternatives.

-30-

MANITOBA
INFORMATION SERVICES BRANCH
ROOM 29, LEGISLATIVE BUILDING
WINNIPEG, MANITOBA R3C 0V8
PHONE: (204) 944-3746

DATE: January 22, 1982

NEWS SERVICE

MANITOBA MOST HURT
BY FEDERAL CUTBACKS

- - -

Schroeder Wants No Changes
Without Provincial Consensus

OTTAWA (Special) -- Finance Minister Vic Schroeder says Manitoba stands to lose significantly more per capita than any other province under new federal proposals to cut back on transfer payments.

He told a federal-provincial finance ministers' meeting here today that planned changes in federal equalization payments and shared-cost programs for health, medicare and post-secondary education should not be made until the full implications of the proposals are known, and until a general consensus can be reached with the provinces.

He warned that:

. Federal cutbacks over the five-year term of the proposed new pact will reach $11,067 million -- almost double that suggested in last November's federal budget -- with the loss in the upcoming fiscal year alone being $1,639 million.

. Cutback to Manitoba over the five years will be $1,051 million -- $151 million in 1982-83.

. Based on a family of four, the average loss for all provinces will be $1,480 per family over the five years.

. The per-family loss in Manitoba will be more than $3,600, the highest of all provinces. Nearest "losers" are Quebec, at $2,800 per family, Saskatchewan at $1,800 and Newfoundland at $1,500.

Furthermore, said Mr. Schroeder, the "net" impact on all provinces of the $11 billion cutback is $9.2 billion -- $7.3 billion more, or close to five times larger, than the $1.9 billion suggested in the federal budget. The net figure arises, he said, because of the planned federally-imposed increase in provincial income taxes of $1.9 billion -- "in effect making provincial taxpayers pay part of the loss."

Mr. Schroeder said that while Manitoba appreciated federal indications to consider a special adjustment for Manitoba in the transition period, this alone was further recognition of the special problem confronting the province under the planned program.

-more-

He urged that the present five-year cost-sharing arrangements, which end on March 31, 1982, be extended until a proper new formula is reached through consensus with the provinces.

Most provinces, he said, strongly support the continuation of the present agreement on an interim basis until "a substantial measure of agreement is reached on modifications."

The problem, he continued, is that adequate time has not been allowed for a review of some of the various options for a new agreements.

He termed the federal proposal in the November budget "the most fundamental and far-reaching change in the equalization arrangements since the present 'representative tax system' approach was introduced 15 years ago."

There is an obvious need for the provinces to have a sufficient understanding of the implications of the federal proposal to assess it fully -- as well as to study some of the major alternatives that have been put forward, he declared.

"Clearly," he said, "it is essential that First Ministers have an opportunity to discuss this issue when they meet February 2 and 3 -- both in the context of national 'economic management' objectives and in relation to regional development priorities."

-30-

•
CNCP SAFT
•
FIN FPR WPG
B07587589
B001
MA
DECEMBER 31, 1981

TO: HONOURABLE ALLAN J. MACEACHEN,
MINISTER OF FINANCE
GOVERNMENT OF CANADA,
OTTAWA.

THANK YOU FOR YOUR TELEX OF DECEMBER 30, 1981.

EITHER OF THE DATES YOU HAVE SUGGESTED FOR OUR NEXT MEETING -- THAT IS, JANUARY 21 OR 22 -- WOULD BE ACCEPTABLE TO ME.

I AGREE THAT ATTENDANCE AT THE CONFERENCE SHOULD BE LIMITED. HOWEVER, WE WOULD SUGGEST THAT SOME FLEXIBILITY BE PERMITTED WITH RESPECT TO DELEGATION SIZE, IN OUR OWN CASE, WE ARE LOOKING AT THE PROBABILITY OF FOUR DELEGATES ATTENDING RATHER THAN THREE -- MYSELF, MR. SAUL MILLER, C.E. CURTIS, MY DEPUTY, AND THE ASSISTANT DEPUTY, J.ELDRIDGE.

INSOFAR AS LOCATION IS CONCERNED, MY STAFF HAVE ALREADY DISCUSSED WITH YOUR OFFICIALS THE POSSIBILITY OF HOLDING THE MEETING IN WINNIPEG SUBJECT, OF COURSE, TO YOUR CONCURRENCE AND THAT OF OUR COLLEAGUES. WINNIPEG'S CENTRAL LOCATION WOULD APPEAR TO MEET SOME OF THE TRAVEL CONCERNS OF THE OTHER MINISTERS, AND I WOULD CERTAINLY BE PLEASED TO HAVE THE CONFERENCE HERE.

WITH RESPECT TO THE AGENDA, I AGREE THAT WE SHOULD FOCUS ON THE EQUALIZATION PROGRAM, ALTHOUGH WE NO DOUBT WILL WANT TO DEAL WITH E.P.F. AS WELL. I AM HOPEFUL THAT THE JOINT WORK OUR OFFICIALS WILL BE GETTING UNDERWAY NEXT WEEK WILL CONTRIBUTE IN A POSITIVE WAY TO OUR DISCUSSIONS.

PLEASE ACCEPT MY GOOD WISHES FOR THE BALANCE OF THE HOLIDAY SEASON AND FOR 1982.

COPIES TO OTHER PROVINCIAL MINISTERS OF FINANCE AND TREASURERS

FROM: HONOURABLE VICTOR SCHROEDER,
MINISTER OF FINANCE,
GOVERNMENT OF MANITOBA.

B002
RX 0533336 FINTB OTT
HON. A.J. MACEACHEN

FIN FPR WPG

DS 714 MTL

GDN GTW655 302006 GMT

HON VIC SCHROEDER, MINISTER OF FINANCE, GOVERNMENT OF MANITOBA
WINNIPEG
VMG844 FINOTT DEC 30/81
TX
BT
FPR 50 FOLLOWING OUR DISCUSSIONS IN TORONTO, I UNDERSTAND THAT OUR OFFICIALS HAVE NOW SET IN TRAIN CONSULTATIONS ON PROPOSALS REGARDING THE FISCAL ARRANGEMENTS WHICH WERE PUT FORWARD AT THE TORONTO MEETINGS WITH A VIEW TO PREPARING A REPORT FOR OUR CONSIDERATION IN MID JANUARY. THIS IS IN LINE WITH THE DIRECTIONS WE GAVE TO OFFICIALS AND I AM CONFIDENT THAT THIS PROCESS WILL FACILITATE CONTINUATION OF OUR OWN DISCUSSIONS.

ON THIS LATTER POINT, IT IS IMPORTANT THAT WE SET A DATE FOR OUR NEXT CONFERENCE. I WOULD PROPOSE THAT WE HOLD A ONE DAY MEETING ON EITHER JANUARY 21 OR 22, 1982. SEVERAL OF YOU HAVE SUGGESTED THAT OUR MEETINGS MIGHT BE MORE CONSTRUCTIVE IF ATTENDANCE WERE MORE RESTRICTED THAN IN THE PAST. I SHARE THAT VIEW AND WOULD HOPE THAT EACH DELEGATION IN THE ROOM NOT EXCEED THREE INCLUDING THE MINISTER.

WITH REGARD TO AN AGENDA, IT IS MY VIEW THAT IT WOULD BE MOST USEFUL FOR US TO FOCUS ON PROPOSALS RELATED TO THE EQUALIZATION PROGRAM, AND I HOPE THAT THE REPORT TO BE PREPARED BY OUR OFFICIALS MIGHT ENABLE US TO COME TO SOME CONCLUSIONS ON THAT CRITICAL ELEMENT OF THE FISCAL ARRANGEMENTS.

I LOOK FORWARD TO HEARING YOUR VIEWS ON THESE MATTERS SO THAT WE COULD FINALIZE OUR PLANS AT AN EARLY DATE. I WISH YOU COMPLIMENTS OF THE SEASON AND BEST WISHES FOR THE NEW YEAR.

THE HONOURABLE ALLAN J MACEACHEN
MINISTER OF FINANCE
OTTAWA

MANITOBA
INFORMATION SERVICES BRANCH
ROOM 29, LEGISLATIVE BUILDING
WINNIPEG, MANITOBA R3C 0V8
PHONE: (204) 944-3746

DATE: December 18, 1981

NEWS SERVICE

SOME PROGRESS MADE
IN FISCAL TALKS
- - -
Schroeder Concerned Over
Planned Federal Cutbacks

Federal and provincial Finance Ministers made "some progress" at the December 14-15 conference in Toronto on federal plans to cut back payments to provinces for equalization, health care and post-secondary education starting in April, 1982, Manitoba's Finance Minister Vic Schroeder said.

Under Ottawa's plan, outlined in the November 12 federal Budget, payments to Manitoba could be close to $160 million lower next year than they would be if current financing arrangements were extended.

At the Toronto conference, Mr. Schroeder emphasized Manitoba's strong concern about the impact of this massive potential cutback on the province's already-difficult budgetary position, as well as on essential services in the health and post-secondary field.

"Our figures show Manitoba would fare worse than any other province under Ottawa's cutback plans -- particularly on the equalization side -- and Federal Finance Minister Alan MacEachen undertook to review our concerns, as well as those of other provinces," he reported.

"At the same time, Mr. MacEachen did not deny the accuracy of our calculations showing the federal cuts to be much larger than his November 12 Budget implied, not only for Manitoba, but also for the other provinces.

"In our view, Mr. MacEachen will have to rethink his proposals very carefully, both in overall terms and in terms of their impact on individual provinces. It was quite clear from the Toronto discussions that no provincial government supports the fiscal arrangements proposals outlined in the budget. In fact, nine provinces joined in issuing detailed consensus reports on concerns about the federal cuts and the remaining province, Quebec, expressed some similar reservations."

He said Ottawa cannot disregard those concerns unless it chooses to do serious damage to the programs involved and to overall federal-provincial relations.

The minister pointed out that all provinces are willing to cooperate with Ottawa to develop improvements to the important transfer payments programs. "What we have said, however, is that it would be extremely difficult, if not impossible, to complete this task within the next month or two, as Mr. MacEachen seems to want.

-more-

The best way around this problem would be to extend the current arrangements unchanged while we work on improvements."

Meanwhile, federal and provincial officials have a mandate to undertake specific negotiations, including a detailed examination of a variety of proposals for changes to the equalization formula.

Mr. Schroeder said the finance ministers will be meeting again in January to review the officials' work and any new federal or provincial proposals. The first ministers may also discuss fiscal arrangements at a Conference on the Economy expected in February.

-30-